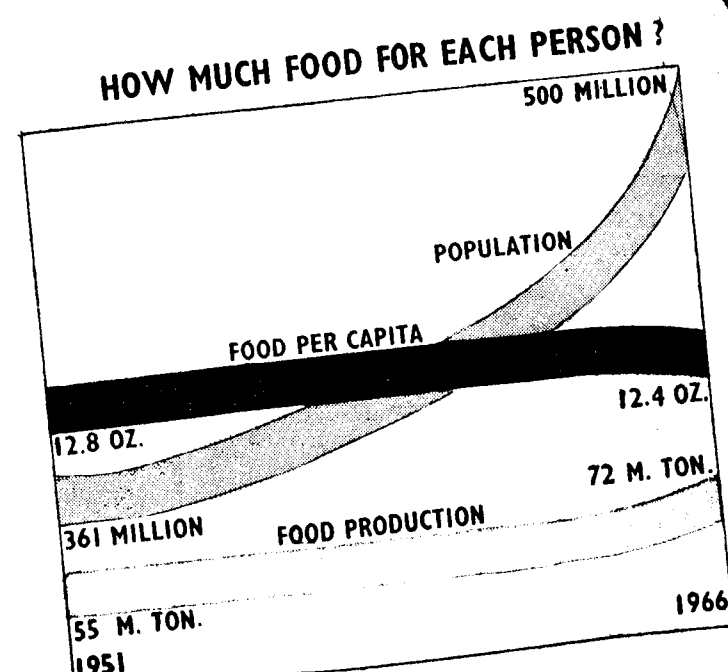
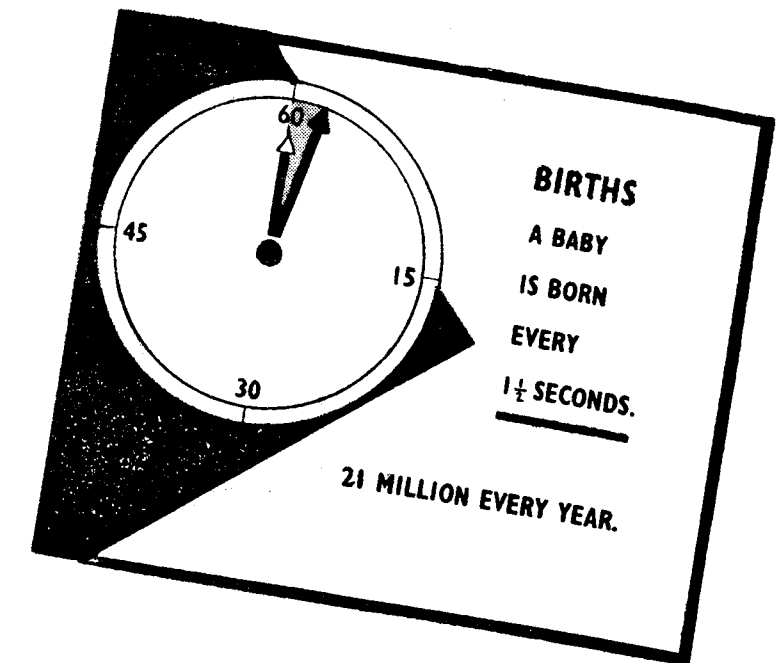
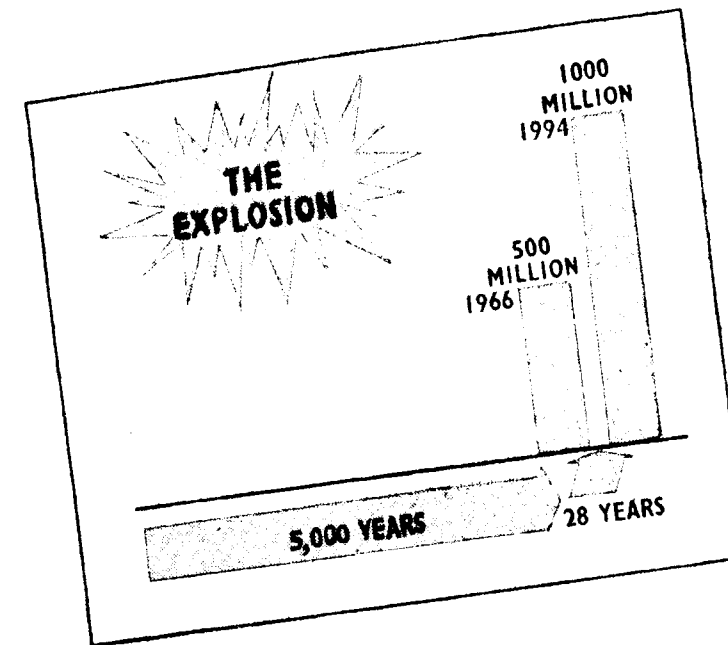


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The Red Triangle

THE FAMILY Planning fortnight which ended on September 30, popularised a new symbol—the red triangle—which is now to be seen at clinics and hospitals all over the country. It has rightly been described as the symbol of hope because it holds out the assurance that we still have a chance of preventing the imminent population explosion which, in the words of Dr S. Chandrasekhar, union Minister for Health and Family Planning, is "a threat more serious than invasion." In order to spread the message of planned parenthood, the symbol has been painted by the enthusiasts not only on the doors of hospitals but also on the cars and scooters of doctors and others who are actively associated with this movement. The red triangle will now vie with the red cross at the premises of clinics, promising assistance to all who wish to restrict the size of the family.

A decade ago, the demographers had forecast that our population in 1981 would be around 520 millions. How far off the mark this prediction was, is revealed by the latest estimate of population of this country at more than 514 millions at the end of last month. At present, the monthly increase in our numbers is estimated to be more than a million which means that by April 30, 1968, we will have crossed the 520-million mark. At the current rate of rise in population, we may reach 1,000 millions by 1994 unless the family planning movement succeeds in reducing the birth rate significantly. Here it is necessary to underline that our population has swelled in recent years not due to any sharp increase in the birth rate but because of the remarkable success achieved by us in reducing the death rate. In 1947, our death rate was around 20 per thousand. It has now been reduced to less than 10 per thousand. Similarly, the infant mortality rate has been cut from 146 per thousand in 1947 to less than 76 currently. It has consequently improved the expectation of life at birth from about 32 years at the time of independence to around 50 years today. Because the death rate will continue to decline as the availability of medical facilities is expected to improve in the coming years, our only hope to reduce the pace of population growth lies in scaling down the birth rate through different family planning techniques.

Dr Chandrasekhar is more a minister for family planning than for health. Ever since assuming charge of this joint portfolio early this year, he has devoted almost all his energy and effort to the movement of family planning. We wonder if he has any time left for attending to other problems of health of this country. His "on stage" performance in regard to family planning has been extraordinarily good, keeping in view the articles he has written, the speeches he has made and the seminars he has attended during the past few months. We would like him to spare some effort for the "back stage" work also because most of our well-conceived projects have hitherto failed mainly due to disappointing implementation. Dr Chandrasekhar's bright ideas—the presentation of a hundred rupee note (or a transistor radio) to a person who offers to undergo the sterilisation operation and the use of helicopters for imparting knowledge about family planning techniques in far off rural areas—should be translated into concrete action. The time for preparing paper plans is over; we can ignore to act now only at our peril.

The researchers in family planning are agreed that a large percentage of women in this country does want fewer children and is willing to adopt any means to restrict the size of the family. The message of family planning has been communicated to different parts of the country but all the states are not doing enough to speed up the movement. The states which have recorded a commendable progress include Punjab, West Bengal, Maharashtra, Gujarat and Delhi. The other states have by and large neglected this programme. According

to Mr Jack Lippes, the originator of the IUCD (intra-uterine contraceptive device or "loop"), who was in this country some time ago, "almost nothing is being done" in the other states besides the ones mentioned above. We wonder if these states were awakened from their slumber during the family planning fortnight.

For the last three years, the IUCD has engaged the attention of the government because it is the least expensive but the most effective method and is also not difficult to use in our conditions. If we wish to achieve our target of reducing the birth rate from 41 to 25 per thousand in ten years, we must complete 23 million IUCD insertions and 3.5 million sterilisation operations, besides popularising extensive use of conventional contraceptives among about 20 million people by the end of 1970. This is a gigantic task. If we fail to achieve these goals, one of the reasons will be that a number of prejudices are slowly building up against the measures taken. The IUCD insertion programme had made a good beginning, but the progress seems to have slowed down because of a whispering campaign conducted by the ill-informed and the half-educated. A year ago, the silly story of a "locked coitus" when the wife was wearing a loop gave a severe jolt to the family planning programme. On investigation, it was found that it was no more than the invention of a fertile imagination. We have, therefore, to be alert in countering all kinds of "anti-propaganda" which some of the interested groups (and also the credulous ones) in the country are bound to make from time to time. For example, it is conceded by the inventors of the loop that it is not expected to be a success in the case of every woman and that it may cause slight complication in one out of 20 cases. The solitary case where the loop does not suit a particular woman gives birth to a series of rumours. There is

Playing Politics with Jute Industry

IT IS difficult to appreciate the reasons which have prompted the Government of West Bengal to set up a court of enquiry to study the working of the jute industry. The court consists of a joint secretary of the Finance Department as chairman and the Joint Labour Commissioner and a senior officer of the Department of Agriculture as members. The terms of reference include a study of the factors for the non-utilisation of the installed capacity, prices of raw jute, special traits of the raw jute market and their mechanism of work, financial position of the jute industry with reference to the incidence of taxes and duties, utilisation of reserve fund and depreciation fund, relationship between cost structure and wage bill system, system of management, tendencies towards monopolies, pattern of employment, home and foreign markets for jute goods, and scope for diversification of production.

It is not clear how a court consisting only of some officers of the state government will be able to make a thorough study of the problems confronting a major export industry. Neither the jute industry, nor the central government nor the governments of the other jute growing states have been associated with this enquiry. One wonders whether the real objective of the government is to find out the facts and help the industry to develop on sound lines or

need to inform the public correctly about the limitations of each method so that the anti-propaganda is kept to the minimum.

Again, a whispering campaign has been started recently by some people that the muslim community in this country is not taking to family planning. Because a muslim can legally have four wives, the bogie is being created that the population of the muslim community in this country is likely to increase by leaps and bounds with the result that the demand for another Pakistan might come up after some time. Dr Chandrasekhar has not devoted enough attention to this aspect. The Fetwa of the Naib Imam Shahi, Jama Masjid, Delhi, will not do in this case. He must get the facts and explain in unequivocal terms that not many muslims in this country go in for more than one wife. Correct statistics must be compiled to show that the number of polygamous muslims is insignificant and that the fear referred to above is based on prejudice and lack of information.

The family planning movement has made substantial progress in the urban areas, but a good deal remains to be done in the villages. Absence of medical facilities in rural areas makes the task of family planning there very difficult. The government must devote more attention to the rural areas because four-fifths of our people live there. Instead of spending huge sums of money on publicity in urban areas, it should turn its attention to the villages and seek the assistance of the village opinion leaders to popularise this movement. The conventional contraceptives particularly should be freely distributed and the "panch" as well as the school teacher should be encouraged to participate in popularising planned parenthood.

to make out a case for the take-over of jute mills. Significantly, the announcement of the appointment of the court of enquiry has been followed by a memorandum by some trade union organisations urging the government to take over the closed jute mills. The three central trade unions, namely, the INTUC, the AITUC and the HMS, in their memorandum, are reported to have argued that the closure of jute mills (seven have been closed so far) has been brought about not by economic factors but by deliberate mismanagement. The unions have suggested that the "mysteries" of the industry cannot be unravelled so long as they remain the "closed preserve of a few monopolists." The state government has been called upon "to meet this new challenge as it did in the case of the Calcutta Tramways Company". "This alone", it is claimed, "can explode the disastrous myth" created by the IJMA about the industry being sick and incurring chronic losses. The unions have specifically recommended the take-over of the Presidency Jute Mills, a compact unit of about 500 looms, closed since July 3 because of uneconomic working.

While the plight of the workers affected by closure of the mills deserves to be considered with sympathy, it should be pointed out that government management is hardly the right solution. The analogy of the tramways is inappro-

priate and misleading. The jute industry caters predominantly to foreign markets where competition is becoming acute; it is unrealistic to expect that official management of the mills will help to improve its financial position. The experience of the cotton mills taken over by the government has been disappointing. Out of the eight mills taken over in the last two years, two remain closed due to financial difficulties; two have commenced working only recently; one has been losing consistently, the loss in 1966 being Rs 1.83 crores; and the financial record of the three others also is reported to be unsatisfactory. It should be remembered that these mills get preferential treatment in the allocation of cotton and exemption from certain provisions of labour legislation.

The trade unions in West Bengal therefore should realise that it is in the interest of the workers that the jute industry should not be made a victim of ideology. The difficulties faced by jute mills are real and they have to be tackled with speed, sympathy and understanding. It is not correct to say, as the trade unions are reported to have said, that the industry has "conspicuously lacked in foresight, initiative and boldness to meet new competitors". On the other hand, the industry, despite financial and other difficulties, has shown commendable wisdom in diversification by producing new items and by exploring new markets. But then the technological developments in the world are taking place so rapidly that the industry has to maintain eternal vigilance and continuously adapt itself to the changing conditions. In this context, the observations made by

Industrial Growth Needs Revival of Capital Markets

THE GOVERNMENT'S expectations that industrial development in the private sector can be maintained on an assured basis, even if the capital market was not active and the investment climate was not helpful, if the necessary industrial finance can be provided, have been falsified by the performance of the statutory financial corporations in the past two years. Ever since the collapse of the boom in new floatations in 1958-62, when institutional agencies had to provide only marginal assistance, the promotion of entirely new undertakings has been on a restricted basis and the addition to industrial capacity has been brought about mainly by the implementation of expansion plans of the established companies. Even for financing the reduced volume of investment in the private corporate sector, the statutory financial corporations have experienced great difficulty in mobilising the required resources and it was freely suggested some time back that, having regard to the paucity of resources, the financing agencies should formulate a scheme of priorities for screening applications and making the best use of available resources.

It may not be found necessary to bother seriously about the lack of resources if stagnation in the industrial sector continued for long and investors were frightened out of their wits by the continuing slump in the stock markets. The increase in the costs of production and declining profit margins, in the face of heavy taxation, have given rise to the impression among the investing public that it is far more advantageous and safe to employ surplus resources

Dr T.S. Subramaniam, Director of Research of the Indian Jute Industries Research Association, are relevant. After a recent visit to the UK and the USA, he has pointed out that jute carpet backing is losing ground to synthetics in these markets. He has said that the technology of synthetic backing has made enormous advance and new investment is being made in it on a massive scale. Synthetic backing now meets about 18 per cent of the total American demand for backing material by the tufted carpet industry. Dr Subramaniam has therefore stressed the need for the Indian jute industry to keep the prices of carpet backing competitive and improve its quality. Our export of carpet backing increased from 83.1 million yards valued at \$64.7 million in 1964 to 97.9 million yards in 1966 worth \$67.4 million. In fact, the Chairman of the IJMA some time ago described carpet backing as "the saviour of the industry". But now even its supremacy is being challenged.

In the circumstances, the Government of West Bengal can hardly afford to play politics with the jute industry. It should, on the other hand, call upon the centre to pursue practical policies towards the industry so that its financial position can improve and it can play its vital role in the country's foreign trade. The state government and the trade unions should realise that by hurting the jute industry they are not advancing the cause of socialism but doing a positive disservice to the country and, in particular, to the several thousands of workers, cultivators and others whose prosperity is closely linked with that industry.

in directions other than industrial securities. Since there has been a virtual strike of investors, even the few issues that are being floated have had to be taken up more or less fully by the underwriters. The established companies are, of course, in a position to make a success of their equity issues where the shareholders can be assured that there will be no period of waiting for getting dividends. Even here, the days are gone when it was possible to raise fresh equity capital on the basis of heavy premium. But the established companies do not like to expand the equity base unless it is absolutely essential as the payment of reasonable dividends is made difficult if there is undue watering of equity capital. There is, therefore, greater reliance on issues of loan capital and to some extent of preference shares. The debentures have, of course, to be absorbed mainly by institutional investors.

The details relating to the sanctions of new loans, fresh underwriting commitments and refinancing of medium-term loans by all statutory financial corporations show that, for the first time in the past decade, loans sanctioned and underwriting commitments by the statutory financial corporations revealed a substantial decline in 1966-67 as compared to the previous year and in some cases, disbursements were lower. Aggregate assistance to industrial units in the private sector would have been very much less but for the fact that there were serious overruns in capital expenditure in many cases due to the upset in calculations regarding financial outlay, following devaluation. The task

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of mobilising fresh resources proved extremely painful for many new companies and even the financial corporations found it difficult to extend additional assistance as the equity-debt ratio had been seriously disturbed and it was a difficult job to correct imbalances by raising additional equity and preference capital. It will not be surprising, therefore, if in the current year there is a further decline in sanctioned assistance as well as disbursements.

In 1966-67, loans sanctioned by the Industrial Development Bank, Industrial Finance Corporation, Industrial Credit and Investment Corporation, State Financial Corporations and State Industrial Development Corporations amounted to Rs 97.1 crores against Rs 119.7 crores in 1965-66. These figures exclude the data relating to the Unit Trust of India and the Life Insurance Corporation. The UTI was in a position to increase its share of assistance because of the availability of larger resources. As regards foreign loans, there was a drop to Rs 16 crores from Rs 24.3 crores on the adjusted basis. Underwriting and direct subscriptions in respect of ordinary and preference shares by the statutory financial corporations were sharply lower at Rs 9.48 crores against Rs 20.9 crores while debentures accounted for Rs 4.3 crores against Rs 4.4 crores. The total assistance

Accent on Liberal Import of Know-How

IN A developing country such as ours, where the technical base is as yet slender and there is dire need to hasten the process of industrialisation, the importance of inviting technical know-how from abroad can hardly be exaggerated. But indiscriminate import of foreign know-how also is no panacea for unless concerted attempts are made at developing simultaneously indigenous know-how, the long-term interests would stand to suffer. What a developing country, therefore, has to do is to strike a judicious balance between the import of foreign know-how and the development of indigenous techniques, including the adaptation of the imported know-how to local conditions. The Mudaliar Committee, which reported recently on the future role of foreign collaborations in our country, has done well in stressing the need for continuing import of technical know-how from abroad on a liberal, though discriminating, basis. The import is not to be restricted only to new sophisticated technical skills in which we have not yet developed proficiency. The committee opines, and rightly so, that even in the case of industries already well established in the country, there should be no ban on importing foreign processes and designs in the interest of not only keeping down the production costs to the minimum but also for allowing the concerned industries to take advantage of the massive research being conducted abroad.

The enunciation by the committee of the general principles that should weigh in deciding about the import of foreign know-how is equally appropriate. The committee feels 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 designs, know-how, etc., would be more advantageous than capital participation, the advantage being that foreign exchange outlay

in various forms amounted to only Rs 126.7 crores against the adjusted figure of Rs 169.3 crores in the previous year.

These details clearly bring out the fact that mere availability of institutional finance will not yield the desired results. Also, it will soon be discovered that the mobilisation of resources, even for the corporations, will cause a lot of headache as there is no regeneration of resources except in the case of the LIC. Even the UTI cannot count on assured sales of units as their popularity is dependent on the healthy functioning of the stock markets. Other statutory financial corporations do make an effort to raise funds from the open market through the issue of bonds; but the main help is derived from the government which has been making periodical allocations out of PL 480 funds. With the new policy of eschewing deficit financing and ensuring overall balanced budgets and the likelihood of a drying up of free PL 480 funds, with reduced imports of food-grains, the government will soon be obliged to pursue policies which will result in a revival of the capital market and which will necessitate only marginal aid from the financing agencies for future industrial development. Further progress cannot be recorded in the coming years on any other basis.

in this case is pre-determined. Generally speaking, in industries where substantial import of capital goods is involved and where the government's policy allows foreign capital participation, joint ventures involving foreign equity participation are considered more beneficial on the ground that it makes the foreign collaborator directly interested in the joint venture and assures complete transmission of know-how. The scope of engaging directly foreign technicians in our industries for bringing in technical know-how, the committee feels, is limited. Royalty and licensing arrangements, it points out, provide an incentive to the licensor to ensure that the licensee goes into full production as quickly as possible. The committee's preference, however, is for the first two forms of foreign collaborations.

The committee has also made a number of useful suggestions for expediting the disposal of the requests for the import of foreign know-how as well as for making the newly indigenously developed techniques acceptable to entrepreneurs. In the interest of expeditious grant of permission for the import of foreign know-how, it has stressed the need for prior consultations between the Directorate General of Technical Development (DGTD) and the Council of Scientific and Industrial Research (CSIR) regarding the necessity of foreign collaboration and terms thereof. The unresolved differences of opinion, it feels, should be promptly brought before the Foreign Agreements Committee. Data regarding the availability of indigenous know-how, it recommends, should be gathered and processed continuously so that delays at the time of decision-making are minimised. A central cell should be created in the Ministry of Industrial Development and Company Affairs, its function being to keep a watch on the speedy disposal of all applications received in the individual ministries and bringing to

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the notice of the Foreign Agreements Committee all cases which remain undisposed for a period of three months from the date of receipt of applications. For making the indigenously developed know-how acceptable to entrepreneurs the committee has suggested the strengthening of the National Research Development Corporation (NRDC) and augmenting of its resources so that it can provide risk and development capital besides its present activity of licensing know-how developed in the CSIR and other government laboratories. The committee would like the NRDC to place greater emphasis on the development activity than it has done hitherto. The NRDC, the committee further emphasises, should have a machinery, either of its own or in collaboration with consulting engineering and 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. It should further develop expertise and draw parameters on a scientific basis for the settling of the terms for commercial exploitation of researches; the parameters should be drawn up 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 exploration.

These measures should go some way in expediting the decisions on the import of technical know-how and also the grant of permission in this regard. It also applies to the committee's two other recommendations, namely, (i) no rigid rule should be followed in the matter of duration of technical collaboration agreements which originally can normally be five to 10 years from the commencement of production, and (ii) there need not be protracted discussions on the minor differences over the payments relating to processes and designs. The committee's observations on the avoidance of repetitive import of technology are as well not so injudicious. But its treatment of the subject of joint ventures leaves much to be desired. The committee, for instance, has pronounced no judgement on three most important points of friction between the government and the foreign collaborators in joint ventures—(i) the equity participation ratio and management patterns; (ii) the duration of stay and remuneration of foreign technicians in joint ventures; and (iii) the quantum of payment for collaborations. All these points deserve careful consideration by the committee in the context of its preference for equity participation by foreign collaborators in industries where substantial import of capital goods is involved. No doubt with the spread of education and technical skills in this country and in view of the vast protected market enjoyed by most of the industries here, the foreign collaborators have to appreciate the need of treating us on a footing different from the other developing countries, our government has also to appreciate the foreign collaborators' point of view in the interest of producing quality goods and efficient running of the joint ventures.

The committee's failure to go into another important, but immensely relevant, question—that of the modification

of the Industrial Policy Resolution—will also be widely regretted. The government's restrictions in areas of investment open to the private sector—although these restrictions have been considerably relaxed in the case of certain industries, e.g., fertilizers—is a source of considerable dissatisfaction, especially to large foreign companies having varied interests. Surely, the experience of the past 11 years should warrant modifications in the Industrial Policy Resolution of 1956; the progress in many a key sector of our economy has been much below expectations because of barring the participation of private enterprise in several industrial fields.

The government's decision regarding the committee's call for a liberal approach towards foreign collaborations in the case of "substantially export-oriented" industries is, without doubt, stringent. According to the government's definition, a unit in a well-established industry in which foreign collaboration is not normally allowed, can be considered as "substantially export-oriented" if it exports about 75 per cent of its output. In other cases, the quantum of exports to enable a unit to qualify for this special treatment has been left to be decided on merit. To export obviously is an arduous task. Not only quality and price, but several other factors also play an important role in this business. In an inflationary economy such as ours where quality consciousness has not yet grown to the requisite extent and foreign exchange difficulties along with vicissitudes in domestic output of raw materials can lead to considerable under-utilization of capacity not infrequently, setting a high target of 75 per cent or even 50 per cent of production for export by even a "substantially export-oriented" unit is not judicious. The loss on exports has to be met invariably out of the profits made in the domestic market. A proper course should be to ask a "substantially export-oriented" foreign collaborated unit to earn for the country a certain pre-determined minimum foreign exchange over and above the exchange outgo on its account.

Howsoever liberal may be the approach towards foreign collaborations, there is no denying the fact that both our industry and the government have to embark upon an ambitious programme of research and development of indigenous know-how. Fiscal incentives as well as liberal facilities for the import of essential instruments and equipment for research laboratories have to be provided for this purpose. The study of the Japanese efforts at adapting imported know-how to local conditions and the governmental assistance provided for the purpose in that country should be worthwhile, as suggested by the Mudaliar Committee.

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Why Prices Rose?

THERE HAS been so far no serious effort to understand how the inflationary situation has developed in this country and to what extent it is different from the situation that prevails in the developed countries in the West or even eastern Europe. Somehow the feeling has persisted in some quarters that inflationary pressures should be tackled in the same manner as in the United Kingdom or the USA and only orthodox measures dictated by the World Bank, the International Monetary Fund or other western economists should be adopted for checking inflationary trends. But a close analysis of the developments since 1955-56 and in the past three years particularly will clearly bring home the fact that the increase in prices that has been steadily taking place in the past decade and galloping rise witnessed since 1964-65 are only due to shortage of agricultural commodities and not to any other major factor.

There has no doubt been an increase in development expenditure on projects which will yield results only over a period and which has been responsible for an increase in money supply without a corresponding improvement in the availability of goods and services. But the plan outlay could have been even on a larger scale if only the agricultural sector had been properly looked after and the requirements of food and cash crops could be obtained from indigenous sources. Somehow this aspect of the question has not been properly considered and in spite of the large outlay on irrigation schemes and minor irrigation works the necessity to overcome the leeway for stabilising agriculture and for exploiting the potential created in the areas under the command of new projects was not properly understood. The success of the first Plan on the agricultural front probably gave rise to a misleading impression and encouraged complacency but it also brought out clearly the fact that the key to success of all plans lay in the prosperity of agriculture and it will even be necessary to resort to deficit financing in certain directions if there was no problem in regard to the availability of essential articles of consumption such as foodgrains, sugar, edible oils and cotton textiles.

An analysis of the price trends since 1950-51 provides food for serious thought. In 1951-56 there was a decline in the index for food prices by 23 per cent and in the general index by 17.3 per cent. On the other hand in 1956-61 the index for the food group rose by 39.8 per cent and for all commodities by 35 per cent. Following the comfortable experience in the first Plan period it was thought that the rise in prices by seven per cent annually was a disturbing development. But what happened after 1960-61 is really alarming. Between March 1961 and July 1967 the index for food articles jumped by 112 per cent and the general index by 76.4 per cent. From March 1966 alone the food group has recorded a rise of 47 per cent and all commodities by 28 per cent. It is pertinent to point out here that the greater proportion of the increase in prices since 1960-61 has taken place after 1964-65. The fantastic increase in prices for foodgrains, sugar, edible oils and other articles of daily consumption created the feeling of discontent and great concern among the masses. Without stopping for a moment to en-

quire why the inflationary pressures developed and how they could be cured, there were many Jeremiahs who were freely suggesting that this country was going the Indonesian way and the government was to be blamed for all the muddle.

There is no doubt that those in charge of the administration of the country did not understand the peculiarities of our economic situation and there was obsession with the idea of promoting heavy and other sophisticated industries. The emphasis on the development of basic industries was not mis-conceived in any sense and it was necessary to use abundant natural resources for promoting such strategic industries as could be developed on a competitive basis. The plan schemes would not have gone wrong if simultaneously the emphasis that is now being placed on the development of agricultural resources and consumer industries had been thought of earlier.

The main difficulty has arisen on account of the fact that the earlier growth in agricultural production has not been maintained and the output of cash crops particularly has been static in the past few years. The extension of acreage under the various crops and the preliminary success attending the speedy implementation of some irrigation projects encouraged the feeling that the desired growth in agricultural production would be easily achieved. These expectations have, however, been falsified and two successive severe droughts have exposed cruelly the dependence of larger areas on regular and adequate rainfall. In a sense the droughts should prove a blessing in disguise as the central and state governments will henceforth dare not neglect the development of the agricultural sector. If only the fertiliser industry had been promoted energetically and the use of hybrid varieties and pesticides for protecting the crops had been adopted widely the country would not have been so seriously de-vitalised as it has been in the past three years.

There is the prospect during the current agricultural year of a bumper output of foodgrains between 90 and 100 million tonnes and the jute crop will constitute a new record of eight million bales while the yield of raw cotton will touch a new high at 6.5 million bales. The output of oilseeds will be higher than the record of 1964-65 by 10 per cent and on the expectation of larger arrivals, prices have already started coming down. It is expected that in the rabi season a big increase in the output of pulses and coarse cereals will take place. With a satisfactory outlook for this season, it will not be unreasonable to expect that by May next year the inflationary pressures would have been brought under control and the index of wholesale prices very much lower than it is now.

Since the reserves of agricultural commodities have been completely denuded by the severe shortfall in agricultural production in the past two years, it will be incorrect to state that there will be a collapse in prices with only one good monsoon.

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The Reason Why...

Prices rise, because heavy budget deficits are met through deficit financing, because output of basic necessities of life is not enough, because large tax-evaded and other liquid funds outside banks are exerting pressure. No one depends upon banks for speculative activities. On the other hand, commercial banks are in fact the first line of defence against inflation because credit restraints are the first weapons to be used from the armoury of Reserve Bank. Further, by putting idle money of depositors to productive uses, banks help to relieve scarcity.

Concentration of economic power or monopolies do not result from operations of banks. Big business and industrial houses come into existence, function and grow as a result of economic policies of Government. In providing finance to them, banks only implement national policies and serve public interest.

Reserve Bank is always Watchful

The working and management of banks are thoroughly controlled and extensively regulated by Reserve Bank. If banks were to engage in any anti-social activities, they could not escape vigilant Reserve Bank's notice. Critics are hardly aware that such allegations against banks affect prestige of Reserve Bank also.

Regulation of Business

In law and practice, Reserve Bank has so many and so comprehensive powers that there is hardly any scope for their evasion or for anti-social activities. Reserve Bank can caution or prohibit any bank from entering into any transaction and issue any directive in public interest. It can determine advances policy of banks and prescribe terms, conditions, rates, margins and purposes of lending.

Control over Management

Under existing law, interests of bank directors in other companies must remain within prescribed limits. They are also watched carefully and continuously. Service conditions of chief executives of banks require prior approval of

Reserve Bank. It can remove from office any director, officer or employee of a bank and can replace any of them. Further, it can appoint up to five additional directors.

Reserve Bank periodically inspects books accounts and business of any bank and calls for elaborate statistical returns. If it is not satisfied with the working of any bank, it can appoint observers to watch its working and require it to make necessary changes in its management.

Framework of Social Controls

In addition, banks and branches must be licensed. Capital structure of banks and voting rights of shareholders are extensively regulated. In addition to all its legal powers, it has a considerable moral influence over banks.

Reserve Bank exercises its powers and exerts its influence not only to protect interests of depositors and shareholders, but also to promote national and public interests. There is no scope, chance or possibility for banks to evade or avoid Reserve Bank. Social control is already there in full measure.

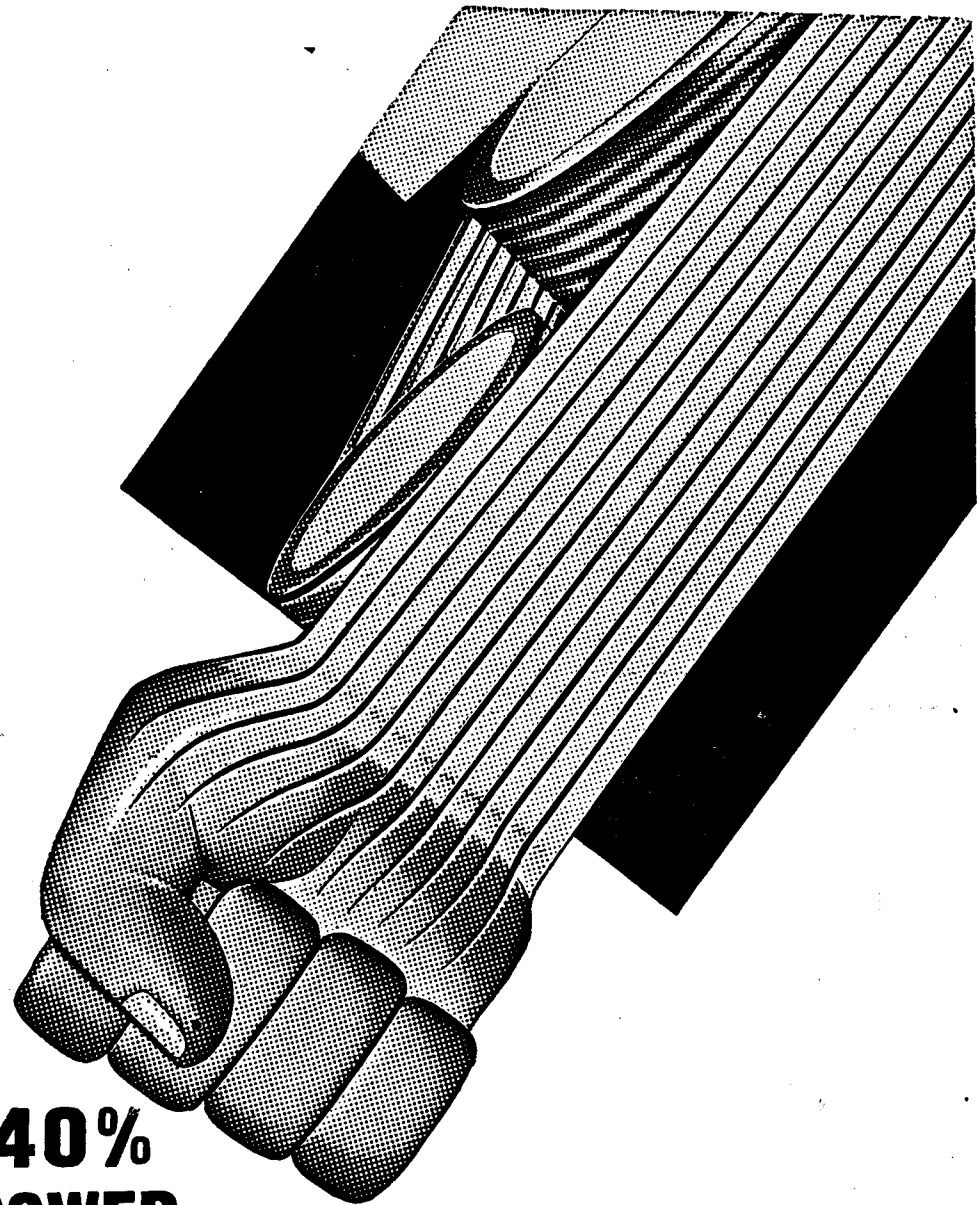
Do banks encourage anti-social activities?

How can banks evade scrutiny of watchful Reserve Bank?



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Dangers of Protein Hunger

DAVID MASON

"WE MAY have to witness during the next two decades a growing acuteness of intellectual power in the developed nations and intellectual dwarfing in our country", said Dr M. S. Swaminathan, director of the Indian Agricultural Research Institute, while speaking on malnutrition and protein hunger recently.

Histrionics or fact? Can India—and the rest of south-east Asia for that matter—afford to relax once it has achieved the golden "self-sufficiency"? Without doubt it cannot. In the pattern of hunger and malnutrition in the developing countries, the greatest problem is not a plain lack of food but inadequate protein in the diet of the people.

It is not easy to assess the magnitude of the world's protein problem, let alone suggest how we can overcome it. Protein is a must; protein deficiency means slower growing, and possibly stunted physical and mental development. It means impaired health, lower resistance to disease, and lower working efficiency in adults.

The greater part of man's food proteins come from plant sources, even if it is consumed via animals which have eaten the plants. But because the body does not use plant protein as efficiently as animal protein, we get a more accurate picture of the protein situation by looking at the consumption levels of animal protein. This is India's weak point; one person in three is vegetarian by choice and another by Hobson's choice.

A New Zealander gets an average of 75 grams of animal protein every day, while an Indian gets as little as 6 grams, and less than 15 grams is common in almost all of the Far East, most of the Near East and Africa, and much of central America. This, though, is just the statistical delineation of a fact that is common sense to the layman and instinctive in any parent—without good food we will suffer individually and collectively.

What is more to the point is finding the way to balanced diets on a mass scale, converting mere bulk self-sufficiency into protein adequacy. From the somewhat sketchy information available, the FAO and the WHO have pieced together a dismal picture lit by one ray of hope, and this is the paradox of India's protein supplies appearing to be sufficient to meet its average requirements.

The catch is that the obviously real protein deficiency arises from a shortage of protein-rich foods in some areas and inequitable distribution of them to the "vulnerable" groups (the old, young, nursing and pregnant) for social, cultural and economic reasons.

Prime Factor

Income, not surprisingly, is a prime factor and noticeably marked in India and Ceylon, two countries for which data happen to be available. A survey in Maharashtra showed that between a third and a quarter of the households did not get enough protein. Within a household the situation may be worse than it seems, for the main wage-earners are likely to take more than the other members of the family, who are at the same time the vulnerable members. This, then is the situation, and few people would dispute it. How is India to correct it?

A short-term target would be to eliminate undernutrition and reasonably improve the quality of the country's existing diet. The FAO has also formulated long-term targets to meet fully the animal protein requirements and raise further the health standards through better nutrition. The two targets aim at raising animal-protein daily consumption from the present level of 6.4 grams per head to 12.5 grams and 20 grams.

Even the lower target cannot be fulfilled without consi-

derable general economic progress; the higher one assumes that the critical problem of poverty would be overcome by the end of the century.

Broadly the lower target would cover the animal-protein needs of the under-sixes and some of the other vulnerable groups. It is a modest target: only one-sixth of the intake would be animal protein, compared with a half in well-fed countries. The longer target would raise the ratio to a fourth or a fifth, and also cater to some of the needs of other vulnerable groups. The difference between the two levels does not involve an intrinsic change in per head availability of either calories or proteins, but emphasizes a shift in diet.

The Shift

What is this shift? It is towards starchy-root foods, an economic source of calories, with low protein content but a useful source of certain vitamins and minerals if eaten in large quantities; towards fruits and vegetables, costly but often rich in minerals and vitamins; towards pulses and nuts, by far the cheapest source of proteins and, next to cereals, of calories. Although consumption is relatively high in India there is room for further expansion.

The last, and most important, shift would be towards animal products, of which fish is the cheapest and least competitive with other foods in terms of productive effort. In fact, the target for animal protein could be economically met by increasing fish supplies.

The short-term target implies an increase in the value of India's food supplies roughly double that before World War II. The long-term target requires a fourfold expansion of food supplies, a twofold rise in cereals, and a more than sixfold rise in animal products by 2000 A.D.

Over the last 25 years, states Dr P. V. Sukhatme, director of the FAO's statistics division, "we may say that the race between population growth and food supply has resulted in a dead heat, but more precisely we should not speak of a race between two independent competitors. Possibly we might change the metaphor and refer to two partners in a three-legged race, but this would give far too rigid a picture of the relationships that exist between population growth and food supply".

Assuming (for the sake of argument) that there will be 1,000 million Indians by the turn of the century, the 1960-62 level of food production will have to jump by 92 per cent by 1976 (cereals by 53 per cent, pulses by 128 per cent and milk by more than 200 per cent). In India continued expansion of the total agricultural labour force can be considered almost inevitable, perhaps half as many again by 2000 A.D. Judged by the cultivated land available per person, the present population pressure is less in India than in Ceylon or Japan, but the proportion of the land already cultivated is greater. This is one factor that might force agricultural technology to develop faster in India than in some other Asian countries.

This rate of application of present knowledge is one of two critical factors in raising production. The other, of course, is the country's general growth rate. The two are related, often closely. For instance, a rapid growth of synthetic fibres would replace cotton and leave room for expansion of food crops. The main problem is to increase the productive power of agriculture rather than limit its scope.

How is this to be done? The question of the basic food-grains has received adequate attention and a good deal of discussion has centred in high-yielding varieties, fertilizers, etc.

What has escaped the attention of the public is the future prospect of raising more of the vital animal proteins.

The fulfilment of the targets for livestock products depends mainly on the supply of milk, luckily an established and popular food in India. Dr Swaminathan, on the other hand, has argued that converting plant protein to animal protein is wasteful in that the animal uses some of it in the process. In fact, if costs were the only consideration, it might be difficult to make a case for the continued use of much of the world's crops as livestock feed since the same resources could be used for a much higher output of vegetable protein for direct human consumption. About 80 per cent of the grain crop of North America is fed to livestock, but the percentage is minute in the developing countries, and they are clearly unlikely to be able to divert large amounts of their agricultural production to animals.

Given this situation, the question reduces to the whole problem of livestock population. On paper it looks simple: India has a fifth of the world's cattle population, and an average daily milk yield of 3 lbs from cows and double that from buffaloes would double production and meet the minimum target. Many of India's breeds could achieve this—much more with rational feeding systems, management and stock improvement. Dr Sukhatme has this to say: "Apart from the religious considerations involved, the trends suggest that the human and cattle population are in many ways complementary given the present agricultural organization and feeding practices. Cattle generally use the by-products of agriculture. The trouble in India is that the supply of relatively nutritious by-products is completely inadequate, and even what is available is not fully utilized".

Burden to Each Other

He goes on: "Most of all the cattle are a burden to each other, their present numbers making it very difficult to ensure adequate roughage at all seasons, while over-grazing makes the systematic use of the available pasture, forest and wasteland practically impossible. In this way the rational exploitation of the cattle by man is frustrated by their sheer numbers. Nevertheless it is the community as a whole that pays the price for this rather than the individual owner. It will require a positive set of policy to halt the growth of the cattle population at the present level".

He concludes: "In the context of the long-term target it is not really possible to envisage any fulfilment of the needs for animal products without a rational attitude towards cattle slaughter".

This thorny problem is at the heart of India's protein hunger.

What are India's chances of achieving the short-term target—92 per cent more food between 1960-62 and 1976? As improved husbandry gains a footing and soil fertility builds up through widespread use of fertilizers, the productivity of land will without doubt go up.

This depends on several factors. First is the capital and knowledge to extend irrigation, produce fertilizers and pesticides, and create storage capacity, and the development and adoption of new breeds of crops and livestock. Another essential factor is credit and marketing facilities for the farmers. A third is the education of the farmer himself. All these are to some extent part of the current government policy, and the achievement of the minimum target would seem well within current technical possibilities.

Dr Sukhatme raises some doubts about India's basic capacity to produce (or pay for) the food needed over the long-term. It was because of this reason that the FAO some years ago made a study of the Lower Ganges—the Brahmaputra

Basin in India, Pakistan and Nepal—areas with a high population density. It was found that technically production could be raised around four times—by irrigation, year-round cropping patterns, and increased yields through fertilizers and improved breeds. Also, there was sufficient potential in the region to surpass the minimal nutritional standard so that by the early 1980s we should be able to see more clearly how to apply technology and achieve productivity rates that can keep pace with population.

If the minimum target is delayed beyond 1980, it may become more difficult. Dr Sukhatme says: "At present there is no question of solving the nutritional problems of the region merely by controlling the population. Such an approach by itself would be inadequate and unfeasible. The main hope lies in realizing the agricultural potential as quickly as possible at the same time as achieving general progress in education and social fields.

"The speed with which this can be done will determine whether in the years ahead we are able to bring a reasonable increase in the level of nutrition or face an increasingly precarious situation, losing ground in the struggle against hunger and malnutrition."

Eastern Economist 20 Years Ago

OCTOBER 10, 1947

The International Monetary Fund—a complementary organisation in its functions, scope and objectives to the World Bank whose activities were reviewed in our last issue—has made a promising start. It has clarified with members the general procedure and the policy of the fund in regard to requests by members for purchase of exchange against their own currencies. It began exchange transactions on March 1, 1947, and up to June 30, 1947, sold \$50 million in the United States funds to France and \$6 million in United Funds and \$1.5 million in sterling to the Netherlands. The major task of establishing initial par values of the members' currencies had been completed earlier in December 1946. It has since been keeping watch over the situation and wherever continuance of price inflation threatens currency parities, it is calling the attention of the members to the need for dealing effectively with the problem. Realising that gold transactions may lead to divergences from par of the external value of member currencies, it has taken action to fix margin at one-fourth of one per cent above and below par. In June this year the Fund requested its members to take prompt action to discourage international gold transactions at prices substantially above monetary parity; for the practice was likely to disturb exchange relationships and involved a loss of monetary reserve. The Fund is keeping itself in close touch with other institutions in the international field and besides considering terms of an agreement with the United Nations, it has taken active part in the work of the conference for world trade and employment. It also provided during the year a technical mission to Ecuador for consultation on exchange and monetary problems. Further, it is gathering information relating to monetary uses of silver, function of silver coins, etc., with a view to facilitating the discussions on the silver problem in an international conference of interested members.

How to Attract Foreign Collaborators?

R. V. MURTHY

IF THE recommendations of the Mudaliar Committee have only served to establish that the policy of the Government of India encouraging foreign investment and technical collaboration merely on a selective basis, as it has been doing all along, is not a sound one, it has achieved a useful purpose. Allowing foreign collaboration on any random selective basis is no substitute for a purposeful and pragmatic policy. In having urged, therefore, that there should be a positive approach to the problem of importing know-how — process know-how and product design, in particular — that there should be no rigid rule in regard to the period of a given technical collaboration and that there should be some flexibility in the matter of foreign collaborations generally, the Committee has stressed the obvious need of the hour. Our country today is at that strategic crossing of the roads on its march to the goal of economic development where it has to choose the right turn not only to save all avoidable delays but also to achieve optimum results. What the Mudaliar Committee has done is to provide proper directions and it is for the government to be vigilant enough to bear them in mind and not miss the directions.

Imperative Need

There is imperative need today to encourage foreign collaboration if we are not to slacken our economic development. Despite all the sympathy of the outside world, prospects of foreign government aid, even that channelled through consortia, such as, for example, the Aid-India Consortium, are steadily becoming less and less bright. At the same time, the yearning for foreign aid has also visibly cooled off, and this has been in direct proportion to the rise in interest and instalment repayment burden. Even those who earlier scoffed at foreign equity participation and preferred foreign loans have since changed their views. Foreign collaborations, financial or technical or financial-cum-technical, especially those entered into after due deliberation, do no harm to a country. Indeed, foreign collaborations not only bring in essential foreign exchange but facilitate the import of capital goods not available in the country; they are invariably accompanied by technical know-how, drawings, patents, processes, designs and managerial and technical skills which greatly speed up the process of industrial development; they also help earn for the country foreign exchange by placing the production of these joint ventures on the export market. And all the countries that are highly advanced industrially today have benefited by such collaborations and foreign investments, e.g. the USA, West Germany and Japan. Even today these countries nurse foreign investments.

Mr K. B. Lall, Secretary, union Commerce Ministry, who was chief guest at the recent Eleventh Annual Meeting of the Indo-German Chamber of Commerce, Bombay, availed himself of the occasion to tell his audience, how there was need for a change in the German approach to collaborations. The goal of collaborations, he said, should be to make them more sought after. With his intimate knowledge of the working of the European Common Market and the economies of West European countries generally, he was in a position to point out, where there was scope for a reorientation of German collaborations. Hitherto, he noted, the goal of German collaborations was only to jump tariffs and quotas; hereafter, he exhorted, it should be their aim to enable this country to become a net earner of foreign exchange, instead of a net spender. Mr. Lall is justified in underscoring this aspect, because, as against imports from W. Germany of DM 413.6 million during the first half of this year, this country could export to W. Germany only DM 104.5 million (even out of this, DM 45.6 million went indirectly, i.e. via third countries) leaving a considerable gap in our trade balance. It is true some Indo-

German collaborations in the field of engineering goods have already enabled our country to export in a big way (e.g. export of trucks valued at Rs 1.23 crores in 1966-67), but our exports to W. Germany must be thrice as much as they are today to bridge the adverse trade gap.

Presently, W. Germany is third in the list of countries investing in India, ranking only after the UK and the USA. Its investments in Asia (of which the major portion is in India) as on March 31, 1967 aggregated DM 360 million out of its total investments abroad on the same date of DM 10,413 million. There is still considerable scope, as also need, for W. German investments in this country, and there would also appear to be a decided inclination on the part of investors in W. Germany to collaborate with our entrepreneurs. But one point which seems to be worrying potential German investors is what they regard as the undue concern being shown in this country about the outflow of royalties and dividends due to foreign collaborators. As a matter of fact, special mention was made of this in the welcome address of Mr G. Crasemann, President of the Indo-German Chamber of Commerce. In this connection, he disclosed the royalty payments W. Germany makes to other countries. Whereas in 1955 W. German payments for copyrights, patents, inventions, processes, etc. amounted to DM 510 million, they rose to DM 781 million in 1965. As against these, the corresponding receipts by W. Germany were DM 155 million in 1955 and DM 319 million in 1965. The resulting adverse balance to W. Germany is heavy, indeed, but it finds it cheaper, says Mr Crasemann, to buy patents and know-how. And he is right too. For no single country, not even W. Germany, would be able to spend nearly DM 200 billion on research which the world is spending on it annually. But W. Germany is also better placed than our country to buy patents and know-how, thanks to its huge export surplus. It is the existence of this surplus that particularly prompted Mr Lall to urge W. Germany to invest more in our country.

Growing Interdependence

The world is becoming growingly interdependent through the flow of private capital and there is no reason why this country should not encourage the flow of more foreign capital, particularly equity capital. Even the highly industrialised USA is not averse to foreign holdings. In 1965, for instance, total foreign holdings in the US aggregated \$26,400 million (\$8,800 million in direct investments and \$17,600 million in portfolio investments), as against only \$14,500 million (\$4,600 million portfolio, \$3,400 million direct and \$6,500 million in short-term) in 1950. By mere wishing, however, we will not get more foreign investment. The requisite climate must be created and the required incentives offered. In this connection, it is perhaps worthwhile quoting the following extract from the speech of the Indo-German Chamber President as indicative of some of the inhibiting factors as a foreign investor views:

"Normally, it is not easy to convince a German party to come out to India. India, of course, has an excellent reputation for uninterrupted remittance of royalties and dividends. But we must say that, up till now, we feel some negative influence of the devaluation of the rupee in the field of collaboration. The devaluation of the rupee in June 1966 meant an unexpected cut by 36.5 per cent into all dividends, royalties, and other payments in terms of foreign exchange. This has since then not been made good and considerations like dividend freeze will certainly not improve the climate. As a consequence, we learnt of cases where German parties being approached for giving out

licences postponed their decisions as they felt unsafe. For, as a rule, one can say that prospective collaborators before making their decisions always go by the experience of "old collaborators". Apart from that, one of the main hindrances in the field of Indo-German collaboration is what is called "red tape." There are many potential collaborators who feel frustrated by long and cumbersome governmental procedures."

Lest this quotation give the impression that Mr Crasemann is not aware of the latest developments, we might as well add that he also alluded to plans to streamline licensing

Whither Coir Board?

S. P. NAYAR

THE COIR Board was brought into existence on July 7, 1954 under the Coir Industries Act, 1953, with the avowed intention of improving our foreign exchange earnings through increased exports. The objective was no doubt laudable but as in the case of all our projects the implementation was unsound and faulty with the result the Board appears to have out-lived its utility and is today a fifth wheel in the coach.

Coir is one of our important exports and the state of Kerala can legitimately lay a claim to having an almost monopolistic control of the trade. As a natural corollary, the Kerala government should have a say in the functioning of the Coir Board, as any decision which it takes may have far-reaching effects on the trade and on workers who depend on it. Also, it is essential that a fair share of representation should go to the trade so that the Board has the benefit of first-hand information about things. It is disheartening to find that out of 26 members who constitute the Board, only six are drawn from the trade and that too from the top echelons, the rank and file being conveniently ignored. The non-trade members are an ill-assorted medley of politicians who are thorough strangers to coir as they are to many other things. What expertise could a body of this kind offer to improve the lot of the industry. Bereft of even the rudimentary knowledge of coir, these VIPs come and go in planes or in air-conditioned coaches, all at the cost of the public exchequer. And to facilitate their easy transport and comfortable stay the office of the Coir Board, an imposing one no doubt, is located at Ernakulam which has no claim to have any rapport with the industry. Apart from the establishment cost which is fabulous, any sensible government which has the genuine interest of promoting the interests of the coir trade at heart should have located its office at Alleppey which is still the capital of the coir industry.

Ineffective Body

The Coir Board today is no more than a glorified post office. Even at this unenviable role, it is an ineffective body in passing on the requirements of the trade to the Commerce Ministry. In spite of its best efforts, the Board has not been able to get for the exporters the amounts due to them under the cash assistance scheme for exports effected as early as the last quarter of 1965. Imagine the plight of an exporter to whom large amounts are due from the government. The Board has been helpless in coming to his rescue.

Yet another instance is the failure of the Board in carrying conviction to the customs authorities in favour of the exporters when the Customs imposed 25 per cent export duty on "Curled Coir," a novel product introduced by an exporter. This is a product which holds considerable export-potential. This processed fibre is different from coir yarn and as such 10 per cent ad valorem duty alone was called for. The expertise of the Coir Board could not convince the customs officials who treated it on par with coir yarn. The Travancore Chamber of

procedures and simplifying forms, as also to the newly evolving policy in regard to financial collaboration.

In conclusion, to confine ourselves to Indo-German collaboration, we must say that W. Germany ranks third as supplier to India, third in the field of collaborations and second with regard to disbursements of financial aid amongst the member-countries of the Aid-India Consortium. That, even while in the midst of a severe budget crisis, W. Germany did not mind drastically cutting a number of its own budget items in order to maintain its development aid to India is a fine gesture which we in this country highly appreciate.

Commerce took up this question with the Ministry of Finance and in no time, it yielded fruitful results.

The Board has not been able to effectively implement the provisions contained in the Coir Industry Registration and Licensing Rules, 1958 (section 21) which lay down that any establishment which does not effect any export for a full year consecutively, would be struck off the rolls of licensees. There are still quite a large number which have become defunct and yet remain on the rolls. At least a periodic survey of the export figures would have kept alive this provision.

Sloppy Working

No doubt the Board's spokesmen would say that they have a research centre at Kalavoor, and a Training and Design Centre at Alleppey. Of what practical benefit have they been to the industry? Both of these have been a liability to the exchequer. As is the fashion with all the Commodity Boards, the Coir Board also brings out a publication "COIR", exclusively devoted to the industry. It is indeed a true indicator of the sloppy working of the Board.

Because there are men from various parts of the country on the Board, expensive experiments are made in all states in the name of promoting coir trade. Thus we find a feverish attempt in many parts of the country to manufacture coir goods, though nature has not been very kind to them in this regard. What nature has refused, the Board seems to be anxious to provide.

The result of one such venture, the Research Institute in Bengal, shows the lack of vision. A Research Institute was started in Urubaria, in Bengal. After wasting lakhs of rupees the Institute has now been liquidated. In Kerala, the coir industry is on its last legs and unless the state government comes forward to create a Board of its own and with a genuine desire to help the industry, eschewing all political considerations in the process, the trade in Kerala is bound to close over.

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The 'Have-Nots' are Cold-Shouldered

A Correspondent

THERE WILL be disappointment among the developing countries that the Fund-Bank meeting at Rio de Janeiro did not record much progress towards replenishment of the resources of the International Development Association (IDA), an affiliate of the World Bank. Proposals for the replenishment of its funds were submitted by the IDA president to 18 advanced countries (which by virtue of their affluence are referred to as Part I members of the Association) in July, 1966. The developing countries expected that by the time the Rio meeting was held the advanced countries would have made firm commitments to help fill the empty coffers of the IDA. The cumulative total of usable funds with the IDA at the end of June this year was \$1,781 million of which \$1,694 million have been committed. Even the balance of \$87 million has been earmarked for projects which are already in the final stages of consideration. The IDA is therefore in no position to provide additional credits; unless there is an early resumption of its lending operations, the development programmes of many of the developing countries will suffer. The IDA has special attraction for them because of the most liberal terms on which it provides loans.

It is a matter of vital and urgent importance to the developing countries that the funds of the IDA are not only replenished but considerably augmented so that debt-servicing does not impose a heavy strain on their scarce foreign exchange resources in future. As it is, this problem has assumed unmanageable proportions for certain countries. The debt-servicing burden has substantially increased to the point where a number of countries are allocating 20 per cent of their earnings from exports for interest and amortization payments on external debts. The nature of the debt problem and its close relationship to the terms of aid are evident in the case of our country. As a proportion of exports, our debt-servicing payments increased from 10 per cent in 1962 to 22 per cent in 1966; there was a rise of 84 per cent in debt-service obligations during this period but exports increased by only 14 per cent.

Inadequate Finance

When debt-service payments are financed from free foreign exchange, the amounts available for financing imports or for purchasing commodities which are not eligible for aid-financing are totally inadequate. Apart from the hard terms of the loans, the practice of giving aid which is "country-tied" and "commodity-restricted" has made the debt-service problem more difficult. The World Bank has acknowledged in its latest report that it is disappointed at the failure of its efforts as well as of other agencies to bring about a softening of the terms of credit. If there has been a little improvement in the average terms of development loans recently, this is largely accounted for by an increase in the share of the IDA lending.

Eventually, the World Bank President, Mr. George Woods, who has striven hard over the past year to have the depleted resources of the IDA replenished, may succeed in some measure. In fact, reports have come in that he has called a high level meeting, probably at the level of the ministers of the 18 rich countries, to discuss this matter. But the question is: why should Mr Woods have to put in so much of extra effort to persuade these countries to contribute their mite to the IDA funds? Why should these countries keep dragging their feet? Is it because of certain practical difficulties which come in the way of their willingness to assist or is it because they are disenchanted with the concept of aid as an instrument for levelling up the living standards of the peoples of the world or is it because of a growing indifference on their part towards the needs of the developing world?

It is true that the persistent balance of payments difficulties of the USA and the UK have affected the flow of capital to the developing countries. The budgetary problems of some of the other industrially advanced countries have prevented them from having a free hand in the provision of adequate assistance. They are probably disenchanted too; despite their aid, the economies of many of the recipient countries are in bad shape — inflationary pressures persist, the growth of population has not been controlled and foreign exchange difficulties have been aggravated. All this, however, does not explain Mr Woods' failure in getting the necessary contributions to the IDA from the advanced countries for they are well within their means in spite of their difficulties. The reason why the efforts made well over a year to replenish the reserves of the IDA have not borne fruit so far must therefore be found elsewhere.

Disappointment and Frustration

The Development Decade conceived of by the United Nations as a period during which the underdeveloped countries would be helped to overcome poverty and want and to move steadily along the path of economic advancement. These countries pinned their hopes on the concept of the well-being of peoples everywhere as an international responsibility, which was accepted immediately after World War II. The "Decade" has run nearly three-fourths of its course and the promises it held out for the underdeveloped countries remain unfulfilled. A sense of disappointment and frustration pervades the developing world. The failure to achieve satisfactory rates of growth, the declining volume of aid, the inability to secure greater access to the markets of the affluent countries and mounting debt-servicing burdens have contributed to their disillusionment. While the developing countries have to be blamed for not doing all that was expected of them to overcome their problems, the failure of the Development Decade must be attributed largely to the lack of adequate response from the advanced countries to the needs of the developing nations.

In this context, the developing countries cannot feel greatly enthused over the green signal that was given at Rio for the creation of a new monetary asset to supplement gold reserves. This asset is sought to be created through the facility of Special Drawing Rights (SDRs) to the members of the IMF. The Executive Directors of the Fund have been directed to work out by March next a detailed scheme to provide SDRs (generally described as "paper gold") to the members for the purpose of increasing world liquidity. This undoubtedly is a momentous development in the history of international monetary co-operation for, after several years of search, a solution is in sight to the liquidity problem. Some of the developing countries will benefit to some extent by the scheme of the SDRs as it will help add one billion dollars to the reserve assets every year. This additional amount will be distributed among the members of the Fund in proportion to their individual quotas. Our country can thus count on a supplementary foreign exchange reserve of \$36 million each year. Though this is not a substantial amount, any addition to the reserves should be welcome because of our stringent foreign exchange position.

From the point of view of the developing countries, it is not so much the monetary gains as the indirect benefits from the scheme, namely greater trading opportunities and an increased flow of aid, that are really important. Normally, an increase in international liquidity should lead to the adoption of liberal trade and aid policies by the advanced countries.

FROM THE CAPITAL'S CUPBOARD

Expansion in Indo-UAR Trade

THIS COUNTRY'S bid to step up its exports to West Asia consequent on the boycott by the countries of the region of American and British goods, has borne fruit except in regard to the export of trucks and buses. The three composite teams sent out to these countries have now returned with substantial orders for a number of items including industrial raw materials, dyes, chemicals and foodstuffs. One of the teams visited the UAR, Sudan and Syria, another went to Saudi Arabia, Jordan and Kuwait and the third to Iraq, Libya and Lebanon. There is every prospect of increasing these orders as the UAR alone has furnished a list of over 100 items which it will require to fill the gap in supply created by the boycott.

But our country seems to have struck a blind alley in so far as the promising field of truck exports is concerned. Ashok Leylands is on the banned list of the Arab countries because Leylands has an assembly plant in Israel. TELCO is keen to export its Mercedes Benz trucks to the West Asian countries, but because of an understanding with its West German associate, Daimler Benz, cannot do so. The Germans wish to keep these markets to themselves and, in fact, have not agreed to the export of Tata Mercedes Benz trucks to these countries. They are, however, now reported to have made an exception in the case of Sudan.

THE RECESSION

The findings of the first official survey of the causes and effects of the current recession are now available. According to the survey conducted by the Ministry of Industrial Development, the machine tool industry is the worst affected by it. Several units, especially those in Punjab (Batala), are on the verge of closure. Apart from the generally unfavourable investment climate prevailing in the country, the Reserve Bank's credit policy (the State Bank of India insists on a margin up to 30 per cent instead of 20 per cent) has severely handicapped the day to day working of the units. The end products of the machine tool industry being capital goods, which are costly, the needs of the industry in terms of finance are much more than in the case of other industries.

With the fall in demand, there is ruinous competition between the large and small units in the marketing of their products. Since the bigger establishments have well organised their sales machinery, they are able to score over the smaller units. For instance, the HMT has offered to sell its machines on a deferred payment basis which the small units cannot afford to do. The survey sums up the situation thus: "All these factors have adversely affected the machine tool industry in the small-scale sector and there is urgent need to help this sector, so as to save it from ruin".

The recession has hit the bicycle industry throughout the country, but the manufacturers of complete bicycles are affected the most. There is a heavy accumulation of finished bicycles as the demand has fallen by nearly 50 per cent. The auxiliary manufacturers, however, are not so badly off, but there is anxiety among them that they may feel the full impact of the recession sooner or later. Retrenchment in the industry ranges between 20 and 40 per cent.

The survey lists the heavy cut in the budgets of the centre and the state governments as an important reason for the recession in the electrical transformer industry. As regards the electric motors industry, the survey has revealed that most of the units are working only 40 to 50 per cent of their capacity. However, the demand for small motors (up to 5 H.P.) is ex-

pected to pick up because of the emphasis that is being put on modernisation of the agricultural sector. But here again, the survey points to the need for liberalisation of credit facilities as the main obstacle to the effective functioning of the units is the lack of working capital. Other industries covered by the survey are electrical cables and wires, leather and leather goods, rubber moulded goods and paints and enamels, all of which have been affected by the recession in varying degrees. In the case of the leather and leather goods industry, the units engaged in exports have been affected, while those catering to internal requirements have generally not felt the impact of the recession. Thus curiously an external factor, which is the reported slump in the export market, is affecting this industry.

TEJAS IN COSTA RICA

A cable received by the government has confirmed that Dr Dharam Teja and his wife are now in Costa Rica after jumping the bail granted to them by a New York Court in the extradition case instituted against them. Investigations abroad have shown that they secured a visa to Costa Rica with the help of the daughter of a Costa Rican minister, who is residing in New York. After cancelling their passport when they fled the country, the government requested various countries, through its missions abroad, not to grant them visas.

Since we do not have diplomatic relations with Costa Rica, our government has approached the US government to use its good offices with the Costa Rican government and arrange for their deportation from that country. The Transport Minister, Dr V. K. R. V. Rao, who is due to arrive in Washington this week, is likely to discuss this matter further with the US authorities.

It will be recalled that the Tejas left this country after the government had unearthed many fraudulent transactions involving a huge loss of public funds, which Dr Teja had indulged in while he was chairman of the Jayanti Shipping Company.

REDUCTION IN FREIGHT RATES

This country has successfully negotiated a reduction in the freight surcharge levied by the shipping conferences consequent on the closure of the Suez Canal. Apart from this, the outward American conference lines have agreed to reduce the general freight increase of 10 per cent enforced by them a few months ago to 7½ per cent, subject to a maximum of five dollars a tonne. The saving to this country on account of both these concessions is estimated at a million dollars. The negotiations were conducted on behalf of the Government at Washington last month by Mr E. Kolet, Joint Secretary in the Ministry of Transport and Shipping.

The following table gives the original surcharge and the surcharge that has been agreed to in respect of different conferences:

Conferences	Original surcharge	Revised surcharge
India/UK/Continent Inward & outward	17½%	15%
West Coast and India Pakistan/USA	20 %	15%
East Coast of India/Pakistan/USA	20 %	15%
India/Pakistan/Ceylon/Burma outward	25 %	15%

WINDOW ON THE WORLD

Investing in India—II

THE EDITOR

PHILADELPHIA.

MEANWHILE I have a feeling that the Indian Investment Centre in Dusseldorf could usefully devote a little more attention than it is apparently giving at present to potential investors in West European countries other than West Germany. I learn that an effort has been made to explore possibilities in Switzerland, but without much success. This, however, should not prove a deterrent and I would suggest Sweden as one of those areas where profitable promotional work can be undertaken.

Not that Swedish industry is a stranger to the Indian market or Indian development at present. The initials "SKF" are at least as well-known in India as they are in other parts of the world. Among other Swedish industrial names familiar on the Indian scene may be mentioned Alfa-laval and Atlas Capco. The latter is the world's largest manufacturer of compressed air equipment. It is not only a specialist in this field, but also the pioneer. Included among the top 20 industrial enterprises in Sweden, Atlas Capco employs over 11,000 people and has a turnover close to Kr 1,000 million (Rs. 150 crores).

The outstanding characteristic of Atlas Capco is that it is a business built up entirely on its own research. The rock drilling technique and equipment known the world over as the "Swedish method", developed in association with Sandwik Steel Works (also of Sweden) and the invention and development of the rotary screw compressor, Twin-Air, used for both portable and stationary applications, are part of Atlas Capco's history of growth and remarkable versatility in its chosen field.

Export Oriented

This group, with its headquarters at Sickla, near Stockholm, has five manufacturing plants in Sweden and production centres in Belgium, Brazil, Denmark, Finland, Great Britain, Spain, South Africa and India. It also operates a worldwide network of marketing facilities covering more than 70 countries. As is the case with Swedish industry in general and Sweden's engineering industries in particular, Atlas Capco is markedly export-oriented, with about 70 per cent of the group's turnover being based on exports. Incidentally, it is worth mentioning that Atlas Capco's Managing Director, Mr Kurt-Allan Belfrage, has a rather unusual background for a business career. He served in the Swedish Foreign Service for 24 years in the course of which he held important diplomatic positions, besides heading trade delegations and was a member of the Swedish delegation to the international trade and tariff (GATT) conferences in Annecy, 1949, and Torquay, 1950. With this kind of experience, Mr Belfrage, naturally, has a liberal and forward-looking outlook on issues of world trade and development.

About the company's Indian operations, I found reasonable enthusiasm in Sickla. The plant of Atlas Capco (India) Private Ltd in Maharashtra is no doubt a relatively modest investment with 1,655 shares valued in the parent company's latest balance sheet at Kr 1.48 million (Rs 22 lakhs) out of the group's total investment (as shown in its books) of Kr 127 million in all its subsidiary companies including those within Sweden. But it is believed that the Indian operations have bright prospects of growing both in response to domestic demand for its products increasing with accelerating development and, possibly, for catering to export needs. While the Indian facility is intended for serving the internal market, it appears that a limited effort has been made to export equipment produced

in India and the indications are that more could be done in this direction if and when plant capacity in India could be expanded. It is emphasized, however, that the parent company would always be keen on reserving to itself the production and supply of certain key components partly for the reason that the quality of both material and engineering should be maintained fully up to specifications.

It is interesting to note that Swedish industrial enterprises are disposed to adopt a distinctly "material" attitude towards their "daughter" companies abroad. The relationship is one of real solicitude combined with an unmistakable exercise of parental authority. The implications of this attitude must be taken into account in exploring possibilities of promoting Swedish investments in India. That this exercise will be rewarding seems most likely. Sweden, after all, disposes of some of the most versatile and efficient engineering industries in the world. These are precisely the kinds of manufacturing activity with which our own industrialization is largely concerned. Yet, at the present time, Swedish participation in our industry is certainly not significant enough. Quite clearly much more could be done here especially when our industrial programmes are emphasising the development of manufactures such as alloy steels and special steels, machinery and electrical and electronic equipment. One favourable factor is that government policy in Sweden is quite favourable to Swedish companies investing abroad although Swedish industrialists complain that they are not permitted to raise capital abroad for operations in Sweden itself on the ground that this influx of money may have inflationary repercussions on the Swedish economy. An amusing comment on this attitude of the Swedish government could be that there has after all been not some inconsiderable American investment in automobile, oil refining and other industries in Sweden.

The Case of Canada

The Canadian situation vis-a-vis the theme of investing in India is not dissimilar to that of the Swedish. Once again we have an industrially advanced country distinguished by its technological progress and proud of its know-how in areas of manufacturing activity which is of great significance to our own programmes of industrialisation. Thus, manufactures such as transportation equipment, non-ferrous metals, electrical apparatus and chemicals and allied products fall within the first ten major groups of the Canadian industrial structure. In the case of these industries as well as of some others, Canada is in a position to export efficiently know-how and processes as well as products.

Not surprisingly then a part of Canada's development aid to our country is linked to the promotion of these specific export capacities of Canadian industry. In the Canadian aid programme for 1966-67, for instance, a loan of \$8.8 million has been provided for the Idikki power project in Kerala and it has been indicated that Canadian special development loans totalling approximately \$19.5 million will be used to finance the electrical equipment required for the project. The Kundah hydro-electric project in Madras state had earlier drawn similarly on Canadian materials, equipment and engineering services.

A good part of Canadian aid has also taken the form of commodity assistance to which Ottawa attaches great importance. Under this programme, financed by grants, supplies of aluminium, asbestos, butyl rubber, fertilizer and components.

newsprint, sulphur, synthetic rubber and wood pulp of the total value of \$12 million, besides food aid of the value of \$77 million were scheduled for India over the year 1966-67.

It is, however, the special loans given by the Export Credit Insurance Corporation of the Canadian government which is of particular interest in this context. Through this instrument of Canadian aid policy, a total of \$350 million had been committed to various developing countries over the six years ending 1966-67. These loans are used for providing part of the finances required by Canadian industrial enterprises for settling up or participating in industrial projects in the assisted countries. India has benefited to the extent of \$50 million up to the end of April 1967 under this programme.

Of more than usual interest was the announcement in August this year of a loan of Can. \$5.5 million by the Export Credits Insurance Corporation to the Indian Aluminium Company since this was related to the essential expansion of the production of aluminium in India. The Indian Aluminium Company is currently working on a project for integrated bauxite, alumina and smelter development on the West Coast of India. Besides the Canadian credit, Indian Aluminium has negotiated a loan of US \$2 million from the Export-Import Bank of the US government. The rest of the finance required for the West Coast project is to be met partly by raising funds in India and partly through a contribution of Can. \$6 million to the equity of Indian Aluminium by its principal shareholder, Alcan Aluminium Ltd., of Canada (ALCAN).

ALCAN, which is one of the world's largest producers of aluminium and has 62 principal operating subsidiaries and affiliates spread among 30 countries in addition to its vast Canadian operations, has pioneered the integrated development of the aluminium industry in India through the Indian Aluminium Company Ltd., which, despite the advent of other major Indian producers in recent years, continues to be a considerable (but no longer the dominating) presence in the Indian aluminium industry. ALCAN holds the major share of the equity of the Indian company, but is obviously and even ostentatiously proud of the fact that there are over 5,200 Indian shareholders on the books of Indian Aluminium.

Affiliate Status

The relations between ALCAN and its daughter company in India, which is becoming more and more an "affiliate" rather than remaining a "subsidiary", are usefully described in a study of the Canadian company's operations in India which was conducted in 1961 under the auspices of the Policy Committee for NPA Business Case Studies Abroad of the National Planning Association in New York. To quote:

"According to criteria suggested by the Federation of Indian Chambers of Commerce and Industry, INDALUCO would have to be considered a foreign firm since its parent Canadian company, ALCAN, owns a majority equity interest in it. Moreover, ALCAN has a pool of career specialists recruited internationally, who can be sent readily to man the different operations. In view of the parent company's considerable global interests, overseas assignments constitute a valuable experience for the developing executive and have an honoured position in the company. INDALUCO has had a succession of foreign aluminium men to fill its topmost management positions. In addition, the central operations of ALCAN are aided by a group of functionally conditioned companies which have specialized responsibilities for the management of the financial, personnel, technical and other aspects of the gigantic network of operations. Thus, there is a pervasive foreign participation in the activities of INDALUCO, as in other subsidiaries of the parent company elsewhere in the world.

"But this is only part of the picture. INDALUCO is also

an Indian company. All of the 4,300 (in 1961) employees, with the exception of a handful of foreign nationals in top positions and one or two ad hoc technical assignments, are Indians. Furthermore, almost all the major divisional responsibilities and the management of all the sales offices and the separate plants and installations today are in the hands of Indians.

"This Indian participation is real in another sense, too. INDALUCO's 10-member Board of Directors contains five distinguished Indian businessmen and public servants who command respect in Indian industrial circles. They have not only helped ALCAN gain an insight into the Indian situation, but also to take actions based on responsible and mature Indian business judgement. The Board of Directors, whose chairman is an outstanding Indian industrialist, constitutes the top policy-making body of INDALUCO. In practice, the Canadian shareholders defer to the judgement of the Indian members on all major-policy decisions, especially those dealing with government policy, though with understandable limitations when it is a question of further investment of overseas funds....."

Husband-Oriented Daughter

This point about the autonomy enjoyed by the daughter company in India—she is, apparently, a husband-oriented married daughter managing her own home and health rather than a dependent child and relation—was dwelt upon with a certain degree of eager earnestness by the executives of ALCAN with whom I had discussions at the company's headquarters in Montreal. With regard to Indian Aluminium's current West Coast project, particularly, it was repeatedly emphasized that this major expansion of Indian operations involving a total capital investment of the order of Can. \$45 million and intended to add 33,000 short tons to the company's existing smelter capacity of 42,000 tons a year, had been considered and passed in the light of the Indian situation and in Indian terms. In other words, ALCAN desires it to be understood that although it holds the major interest in the equity of the Indian company, its role is essentially that of a friend, philosopher and guide. Incidentally about 75 per cent of ALCAN's own shares are held in the United States and it is claimed that this has not in any way prevented this company from functioning independently of aluminium producers in the United States.

ALCAN's association with Indian Aluminium constitutes far and away the largest single block of Canadian capital, entrepreneurial and technical participation in India's industrial expansion. Mention may, however, be made of another much smaller but still interesting Canadian entry into the very important field of non-ferrous metal development in our country. COMINCO (which was known earlier as The Consolidated Mining and Smelting Company of Canada Ltd.) is among the world's leading non-ferrous metal producers. But, besides lead, zinc, silver, bismuth, cadmium, indium, gold, antimonial lead, zinc dust and pig iron and concentrates of zinc, lead, copper and tin, it also produces fabricated metal products, electronic materials (in the form of high purity metals), electrical and thermo-electric materials, chemicals and, finally, a wide variety of chemical fertilizers. COMINCO has also the distinction of its capital and management being firmly held in Canadian hands, its principal shareholder being in fact the Canadian Pacific Railways, which however does not take an active part in the normal conduct of its business. COMINCO's investment in India is at present a rather modest one, being a 40 per cent interest in Cominco Biyani Ltd., Calcutta, which has set up a 22,000-ton zinc smelter and sulphuric acid plant near Cochin in Kerala. Considering COMINCO's resources, versatility and its dynamism both in its Canadian operations as well as in its world-wide activities, it is only reasonable that it should become engaged to a greater extent in mineral surveys, exploration and integrated non-ferrous metal development in India.

Again, it is rather difficult to understand why no interest has been shown so far in the possibilities of COMINCO associating with fertilizer projects in India. It may be oddest that COMINCO is exporting ammonium sulphate to our country under the Canadian government's commodity aid programme.

On the general question of Canada investing in India, there is more than a little to be said. As I had suggested earlier, in terms of technology and know-how, Canadian industry is pre-eminently qualified to contribute substantially to Indian development in important areas of industry. It has however been suggested that, since Canada is, on balance, a capital-importing country, not much surplus goods could be found there for foreign investments. This generalization has to be looked into carefully, since, in more specific terms, it is undoubtedly the case that there are more than a few major Canadian enterprises which seem to be generating internal resources on an impressive scale. There is also the argument that since American capital is present to the extent of about 60 per cent in Canadian industry as a whole, major foreign investment policy decisions are not being or cannot always be taken in board rooms in Canada. While it may be conceded that, so far as the North American Continent is concerned, investor psychology is to be treated as one and indivisible, there is no justification for discounting unduly the autonomy of Canadian industry as such.

In any case, it seems to me that there are at least two

basic factors making for Canadian industry looking favourably at profitable investments abroad. One is the acute manpower shortage in Canada and the other is that wages have been outpacing productivity in a significant part of Canada's industrial economy, such as mining, manufacturing and the electric power and gas utilities—and it so happens that precisely among the affected industries are to be found those in which Canada can make its major contribution to the industrialization of developing countries.

More immediately it appears that the prospects for increased Canadian private investment in India will be effectively determined by the extent to which Canadian aid in the form of long-term export credits will continue to be available. Here the possibilities are not discouraging. In the first place, the Canadian government is firmly committed to raising steadily the level of its development aid in the aggregate. Secondly, it is also working on a plan for formulating its aid programme on a continuing, perhaps, a five-year basis, instead of the existing annual basis. Then again there is the fact that once the need for large food aid is over and there is also some improvement in our export earnings so that we are better able to service our maintenance imports, a shift of Canadian aid funds towards supplementing the capital projects of Canadian industry in India should become possible. Clearly these are not unreasonable assumptions.

(Concluded)

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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-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 5½% 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 5½% 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 5½% 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.

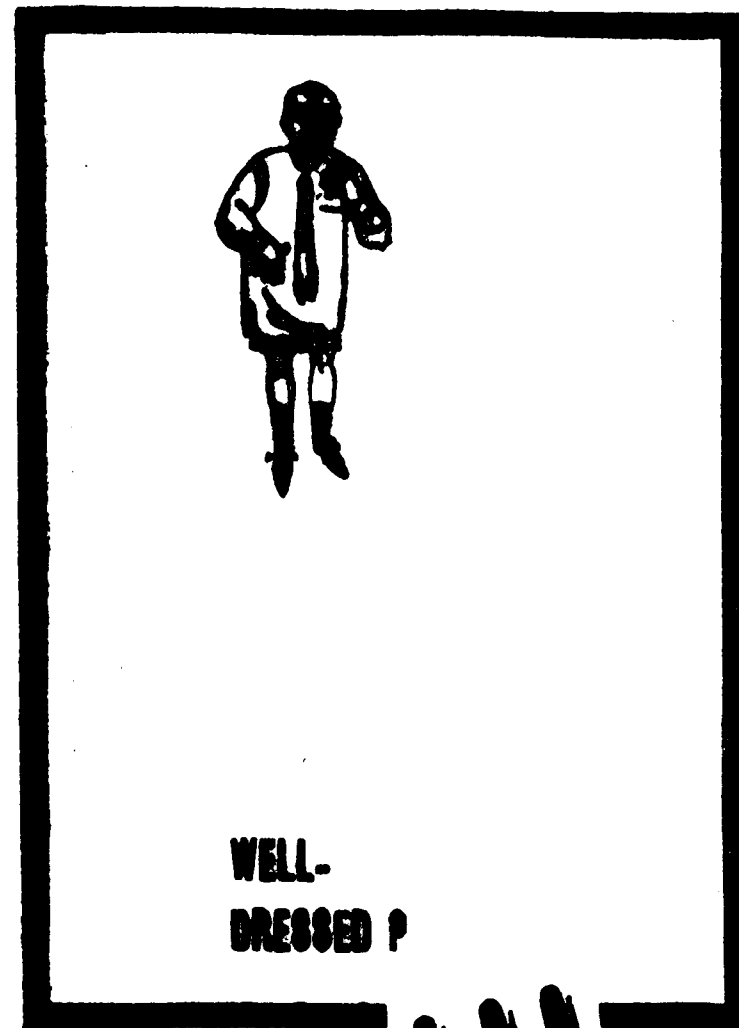
Copies of the prospectus and application forms can be had from the offices of the Reserve Bank of India as also from the Head Office of the Corporation at Burmah-Shell House (Annexe II), Connaught Circus, New Delhi and its Branches at Liberty Building, 8-Marine Lines, Bombay-1, 23-Rajendranath Mukherjee 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
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The USA—Boom or Bust?

JOSSLEYN HENNESSY

BIGGER AND BETTER DEFICITS

LONDON:

THE USA seems all set for one of the biggest booms in its history. Administration spokesmen forecast that output will rise by \$55,000 million. An average family of four will receive an extra \$400 by the end of the year. The GNP is expected to have risen by \$15,000 million during the quarter July-September (seasonally adjusted annual rate) which is a real growth rate of four to five per cent per annum. The forecast is that the last quarter of the current calendar year will be as good; the boom is expected to last well into 1968.

Consequently, you would have thought that everyone would be throwing his hat in the air. But no! It's the old story: "When you've got what you want, you don't want what you've got." And it's all the fault of that fellow Keynes!

I need hardly teach the economic grandmothers in this class how to suck eggs by outlining Keynes' theory in detail but, for the benefit of newcomers, let us recall that, faced with the massive and persistent 14 per cent average unemployment in the UK in the inter-war depression years, Keynes diagnosed the cause as lack of demand. His solution was massive government expenditure on public works, easy money and deficit budgets. When full employment had been attained, the government would close the gap between actual and potential demand by reverting to surplus budgets, which would maintain employment and prevent inflation. It was all too simple. Why had no government ever done this before?

Untested Theory

What nobody, but nobody*, has pointed out is that no country in any continent which has sought to apply Keynes' theory has yet made it work successfully. I am not suggesting that the theory is incorrect, but that to be successful it looks as though it needs to be applied by an autocratic government, not dependent on votes, and advised by a group of high-powered economists supplied daily with up to the minute statistics of all relevant changes in the economy. Instead, all economies in the free world are managed by politicians—who must take into account the wishes of voters and of pressure groups, and of economists whose data is, with present statistical techniques, weeks, often months, behind actual events. In the totalitarian economies, the ruling party has hitherto been able to take quick or unpopular decisions—although today even they are finding it more and more necessary to pay attention to emerging public opinion—and totalitarian economists have suffered not only from out of date information but from unrealistic statistics, the result of planning imperfections. Free markets, too, are imperfect, but they are at any rate closer to reality, and by resolutely enforcing competition can be made to approach more closely to perfection.

The US budget has been in deficit for thirty-one out of the past thirty-eight years, but this did not prevent it from suffering from business cycles strong upward movements alternating with recessions), and from unemployment which persisted around six to seven per cent on average, although it has recently fallen to below four per cent. If unemployment had been solely due to lack of demand, it would surely have responded to this steady pump priming, but as I have suggested here in the past (and propose to analyse in detail in the near future) although in some periods demand was doubtless lagging, there exists a hard core of unemployables in the USA—dwellers in ghettos, inner-city slums, and minority groups, such as the

non-whites,—all substandard in education or in attitudes towards work and society, for whom no amount of deficit budgeting can ensure employment.

In 1964-66 industrial production levelled off, stock inventories were run down, investment lagged, yet wages and prices rose. All this while there were deficits. In the fiscal year 1966-67 the administrative budget deficit was \$10,000 million, the biggest deficit since World War II. Looking at this, a Keynesian theorist would assume that unemployment must have been exceptionally high to justify such a deficit. In fact, employment was full (except for the hard core of unemployables). The Keynesian would also assume that the economy was booming under the impact of the deficit. In fact, it was trundling along more or less on the level. What is more, there loomed on the horizon a deficit of \$30,000 million! This prospect did unnerve the President and his advisers and he asked Congress to authorise a special 10 per cent tax surcharge. Even if Congress accepts this (and at the moment of writing it is hostile), the surcharge would only reduce the deficit of \$20,000 million!

Since President Johnson and his advisers are not fools, how did they get into this dangerous situation?

REFINEMENTS OF NEO-KEYNESIAN THEORY

An interesting explanation is offered by Dr Gilbert Burck and Mr Sanford S. Parker, who have collaborated in a magisterial report in the September issue of "Fortune", the USA's leading magazine of business. They attribute the USA's present policy to Mr Walter Heller, who in 1961 became chairman of President Kennedy's Council of Economic Advisers. Mr Heller said that the Administration should run deficits as long as the nation's resources were not being used at optimum level (a nice refinement of Keynesian "full employment"). At optimum level, the budget should be balanced. If inflation and production bottle-necks threatened, the budget should run a surplus. Fine! But how do you ascertain just how big a deficit or surplus is needed for non-inflationary expansion? Mr Heller's answer was the concept of "full employment surplus", meaning that when the economy is expanding, tax revenues rise faster than national output, because as output rises, profits rise even more, swelling tax company yields and, still more, yields from the steeply graduated taxes on income. But government expenditure does not rise automatically as the economy expands, so, said Mr Heller, as full employment approaches, budget revenue catches up and passes expenditure. At full employment, with tax rates as they stood in the early 1960's, there would be a surplus.

Yet in spite of budget deficit US unemployment remained high. Mr Heller had an explanation ready: the automatic growth in revenues from growth in the GNP becomes a "fiscal drag" on the expanding economy—another nice refinement of Keynesian theory. Unemployment remained high, therefore government revenues were rising faster than government spending, so the government should raise spending or reduce taxes, or both. This Mr Heller called paying the nation a "fiscal dividend". The President accepted this theory and there followed the now famous tax cut of 1964, which raised incomes and boosted consumption. The President's Council of Economic Advisers issued shining forecasts for a cloudless future in 1965 and even into 1966. Omnia vincit Keynes.

But when the shine began to wear off, Mr Otto Eckstein of Harvard uttered some warnings in the revised 1967 edition of his book "Public Finance" (Prentice-Hall). All government expenditures, he said, do not have the same effect on demand.

* Except, I modestly add, myself. I have made this point in this column repeatedly over the past many years.

Some, e.g., expenditures on public power facilities, may merely replace private investment. Government purchases of home mortgages may or may not stimulate building. Nor do various kinds of tax changes all affect people's spending identically. What is expected to be a temporary tax cut does not have the same effect as one expected to be permanent. Finally, the effects of some tax changes are virtually impossible to assess.

Politics Vs Economics

To use the fiscal-dividend theory effectively, Mr Eckstein said, needs far greater efficiency in predicting turning points in the cycle than exists. Stock brokers who aim to make their clients sell at the top of the market and buy at the bottom understand only too well what he means. "The best that we have been able to do so far", writes Mr Eckstein, "is to diagnose them promptly after they have happened." Among the tantalising difficulties of (1) forecasting and (2) applying a diagnosis, Mr Eckstein cites the "recognition lag"—the weeks or months taken to agree on exactly what is happening; the "decision lag"—the months that elapse while government departments, ministers, their advisers, and parliament decide on compromises between what might be economically desirable and what is politically and electorally possible; and the "expenditure lag"—the weeks, more probably months, before the compromise remedy decided upon begins to take effect.

Mr Heller's own experience illustrates Mr Eckstein's thesis. Mr Heller wanted to stimulate the economy massively with a tax cut and increasing government spending. Yet to persuade Congress to cut taxes while the budget was in deficit, the Administration was compelled to restrict expenditure for three years. In the light of subsequent developments, it now seems probable that the 1964 tax cut should have been initiated earlier and spread over a longer period, because already by the end of 1964 the economy was accelerating appreciably and by 1965 was overheated. The Administration was determined to get unemployment down to four per cent. The Vietnam war was building up in the spring of 1965 and the Administration grossly under-estimated its costs—an error of forecasting which reperched on the efforts of the government's economists to diagnose sound policy; it constituted a major fault in their data, which vitiated their forecasts.

President Johnson's "Great Society" (the US euphemism for Welfarism) began to boost non-defence spending, yet the Federal Reserve continued to make money plentiful and in the second half of 1965 money supplies and private debt began to soar. The Administration seemed to think that it was safe to continue expansion as long as a gap existed between actual and potential output, no matter how small the margin of unutilised resources was becoming nor how rapidly it was being closed. (For a detailed statistical analysis of the actual margins of unutilised capacity and the effect of their size on prices and employment in the UK economy, I refer you to Professor F. W. Paish's "Policy for Incomes?" 1967, 3rd edition, Institute of Economic Affairs, 66A Eaton Square, London, S.W. 1.)

III

DEFICITS CAN RETARD GROWTH

According to Dr G. Burck and Mr S. S. Parker, the chief cause of the USA's 1967 slump was the over-stimulation of inventory accumulation and capital investment in 1965. If while a company's business is growing at six per cent per annum it increases its inventories at a 10 per cent rate, a time comes when it must pause to run down its stocks. If it adds to its productive capacity at the rate of 10 per cent per annum, a time comes when it must slow its investment until it sees its utilisation rate rising again. Once such excesses have occurred, and the cycle has started, it is too late to stop them, and difficult to mitigate them without creating new problems. The only time

that you can do something about them is before they occur and (to the extent that you can do anything about them) the only way is to keep the economy from overheating. Dr Burck and Mr Parker believe that the outstanding error of the neo-Keynesians is to assume that the business cycle is no longer important, that growth is the one aim in life, and to overlook that unbalanced growth can generate a slump. By 1966, US government policy-makers were not solving problems; they were stockpiling them.

What Mr Morarji Desai, and all other finance ministers, subject to neo-Keynesian theories, need to grasp is that the process of financing big deficits can retard the economy that they are supposed to stimulate. Over a period, the drag may offset the stimulus, because the first effect of financing a big deficit is that the government competes with private borrowers in the money market and pushes up interest rates. Dr Burck and Mr Parker point out that despite the Federal Reserve's switch to easy money last hot weather, long-term interest rates rose to the highest levels since the 1920's. Partly because of the inventory and investment boom, companies had become extremely short of cash. Some needed it for accelerated tax payments. Some had financed too many needs with short-term capital and were now funding it. Many foresaw a steady rise in interest rates. Remembering that the 1966 credit squeeze had aimed at checking inflation, and realising that the budget deficit would put the government in the market too, business hastened to get long-term money while it was still available.

Chronic Deficits

It now looks as though the US deficits are chronic and structural. Next year's deficit will be twice or thrice this year's and will be accompanied by full employment. The cause of the deficit is, of course, rising government spending and it looks as though at long last even the US economy has reached the point when it cannot afford simultaneously (1) to run a major war, (2) to boost welfarism, (3) to continue investment at rates needed to maintain steady growth, and (4) to seek to enforce policies that will avoid balance of payments deficits. Dr Burck and Mr Parker state that the deficit that looms ahead in 1968 would not be anywhere so big if it were not for 1967's slump. Since, they say "the economy is still soft, it is generating little increase in tax revenues". Since, however, they wrote that, reports now assert (as I said in my opening paragraph) that the economy has begun to move at a rapid clip—just what the President's advisers feared most and why they urged the 10 per cent surcharge.

President Johnson outlined his own solution at a recent press conference. He said: "What do you do with this kind of deficit? We could tax it all but we don't think the economy would stand that. No one in government recommends borrowing it all. We will borrow part of it, tax part of it, and save part of it" (i.e. reduce spending). "We wish we had a balanced budget," he concluded huskily. "We wish we didn't have any problems"—words likely to have evoked heartfelt echoes from finance ministers all over the world.

To this, however, Mr Mills, chairman of the Ways and Means Committee of the House of Representatives, and the one man whose support is essential if the President is to get his way, has replied that his Committee does not consider that the Administration has made its case. He fears that the tax increase would be permanent, not flexibly temporary (as neo-Keynesian theory requires). The Administration insists that the surcharge is a temporary measure to meet a given situation, but Mr Mills understandably has his attention fixed on the huge, and from their nature mostly rising, expenditures to which the Administration is committed and sees little likelihood of any neo-Keynesian tax reductions.

Mr Reiersen, of the Bankers' Trust of New York, told the Ways and Means Committee: "The USA faces a fiscal emergency

far more serious than is generally recognised, which presents a grave threat to the economy as a whole". Over 260 economists have signed a letter to the committee urging increased taxes.

At the time of writing, President Johnson is up a gum-tree. He can either accept Mr Mills' suggestions that it might be better to have the \$30,000 million deficit "for once. Then we could see all the problems that it would generate" (Sic!), or he can try to reduce government expenditure. The President has

Tourist Industry in Trouble

E. B. BROOK

VIENNA:

"THE LONG hot summer" has become journalistic catch phrase, used usually to explain the cause of many troubles. This year's summer in Europe was neither long nor hot, except for a few weeks, but there is plenty of trouble.

The trouble comes because the tourist industry, with the help of some public and private economic squeezes in two big tourist spender countries—Britain and West Germany—found what is probably its true level and does not like it. For several years southern Europe in particular has basked in a relatively carefree spending spree by their northern neighbours buttressed by Americans. Now that spree is over and, by all present showing, is unlikely to return for some time.

The Italians and Spaniards, in particular, are finding their profits lower and that, in some cases, they have burnt their fingers by putting up accommodation for which they had hopefully assumed would be an ever-increasing flood of sunshine-seekers. That was doubly foolish; no flood lasts for ever and European sunshine, even in the south, can be fickle.

But, like cold blasts and other forms of adversity, the experience is making the European holiday-provider look a little more closely at what he is doing to earn his money. In many cases what he finds cannot cheer him, though whether the discovery will persuade him to change his ways is another matter. Unlike the British, who appear to specialize in self-criticism if not denigration, the continental European is a quite remarkably self-satisfied person whose faults appear only in the eye of the beholder, and that, of course, is exclusively the beholder's fault.

Self-Examination

Italy, for example, which leads fairly easily in the intense, rather greedy, tourist race each year, would benefit from quite a deep self-examination. Italian ports and airports not only leave much to be desired, they are positively bad. Bombay and Calcutta docks are sedate and orderly compared with Naples (Genoa is not much better) and the air tourist landing at Rome's airport is, after being deafened by jet noises inside the echous airport building, immediately caught up in a grim fight for this baggage. Four or five flights' baggage arrive simultaneously on one counter and there is invariably a desperate fight in about six languages to grab desperately one's belongings. Then begins the haggle with porters over tips (no rates are marked up) and most of the taxis at the airport have neither meters nor a tariff notice.

Those arriving at Rome's famous rail terminal are little better off for they are immediately told at the National Tourist Board's booth that it does not undertake hotel reservations. The Italian Ministry of Tourism has helpfully closed three good hotels in the centre of Rome; the new hotels, which are being built in the outskirts of the city, are often run by part-time staff and offer only a diet of veal and fat-soaked chips that would raise a blush on the cheeks of the apparently self-conscious British hotel keeper.

Florence, which has received millions of pounds and dollars to restore it after last year's flood damage has been, at least temporarily ruined by the squabbles between its various author-

suggested that the budget could be cut by \$2,000 to \$3,000 million but Congress is (at present) unlikely to be impressed by anything below \$7,000 million—and that would still leave a \$23,000 million deficit.

In short, the latest reports suggest that, partly because of last November's election results, partly through serious errors of neo-Keynesian judgment, Congress is now totally out of President Johnson's control.

ities as to how the money is to be spent. The mud has mostly disappeared but the damage remains because, often, one authority owns the damaged buildings and another the money to put it back in order. The one lasting result of the flood is that, in a city noted even more than most for inadequate parking space, all the space there was is now permanently blocked by building contractors' saloons.

Compared with Italy, Spain remains relatively sedate, but even Spain is changing under the stress of foreign visitors in search of a good but cheap holiday. One can scarcely blame the Spaniards for being annoyed since they have been reduced by their tourist board and a host of quick-profit foreign tourist agencies to involuntary hotel and boarding-house keepers, a fact that nettles this proud and dignified people not a little. In places, especially in the south, the traditional reserve is giving way to the emergence of the prowler. Worst of all, so rapid has been the hotel industry growth that hotel rooms are actually booked abroad even before the hotel is built—incredible though that may sound. One result is often not only no room but staff cannot be trained quickly enough. As one irritated Spaniard snapped, "Even Spaniards are not actually born waiting at table."

The French Faults

The French learnt of their faults, of quite a different type, two or three years ago; they just will not spend enough money. Unlike some parts of Spain which is obliged to push visitors into rooms only just completed, the French push theirs into rooms that are beginning to fall down. Despite government efforts to make improvements, bathrooms are at a premium and much of the plumbing is of Third Empire vintage. But one can still have a very enjoyable holiday in France away from the main tourist cities because, it having got around that France is very expensive (which is not always true) there is not an uncomfortable number of visitors.

The Austrians have also suffered this year, not because their little rural mountain chalets are not good and clean, but because their owners had grown used to making good profits from visiting Germans and had neglected their own countrymen. This year, far fewer Germans came and the Austrian holidaymakers, having been neglected and snubbed before, took themselves off to Yugoslavia and left many of these holiday chalet owners ruefully with empty rooms in which they had plenty of space to write out their bankruptcy petitions.

East Europe has, on the whole, done well but diseases spread in tourism as in sickness. The Yugoslavs, in particular, are beginning to learn some of the western tricks and will be spoiling their own business with them before long if they are not careful.

It would not be surprising when (and if) British and German fortunes improve these two peoples decide to sample the pleasures of each other's countries rather than go south so often. If they still cannot bear to do that, there is still scandinavia—and staying at home, if it is not bracing, can at least be restful.

Reform of the Management System in Hungary—I

Dr JENO REDEI

ACCORDING TO a Hungarian Government Resolution far-reaching changes will be carried out in the system of management of the economy as from January 1, 1968. These reform measures have the purpose of lending higher efficiency to planned economy, of bringing about a more vigorous economic growth—and at the same time maintaining the equilibrium of the economy. Their characteristic trait consists of joining together organically the plan-based central direction of the national economy with merchandise relations and the active role of the market, on the basis of the socialist ownership of the means of production. The reform gives more independence to the enterprises, allots a leading role to economic methods in the direction of the economy, and allows more elbow-room to the merchandise relations including their various categories, viz. the market, money, prices and credits and, finally, to profit as the synthetic index of successful activities.

In view of the outstanding importance of foreign commerce in the Hungarian economy, one of the points of departure of the initiators of this reform was the high "foreign-trade sensitivity" of Hungary's economy. Using a fashionable—though not quite accurate—expression, Hungary could be called a country of "open economy" in view of the fact that exports amount to almost 40 per cent of the national income, and that in recent years each one per cent growth of the national income involved a nearly two per cent increase of imports (and a similar-size increase of exports). Foreign trade, however, in addition to having been one of the points of departure of the reform, has been one of its principal targets as well, the intention being to increase the economic performance also in the domain of foreign commerce.

The Resolution

The resolution on the reform of economic management has this to say on the said problem:

"A more rapid economic growth necessitates our increased participation in the international division of labour and the better exploitation of the advantages accruing therefrom. The co-operation and the development of our economic ties with the socialist countries will remain of primary importance also in the future. Simultaneously, our economic connections with the non-socialist countries will have to be extended; the possibility must be ensured of the foreign markets presenting a stronger incentive to our production, commerce and economic development."

Thus, one of the fundamental objects of the reform is to enable the assertion of a more pronounced incentive effect of the foreign markets on the Hungarian economy. With this object in mind—and in accordance with the resolutions—various measures are being elaborated:

—Instead of plan directives and the breakdown of plans to the level of individual enterprises, the foreign-trade activities of the enterprises will be guided with the aid of so-called medium-range (five-year) plans indicating the principal objectives, and the economic methods enabling the reaching of the latter.

—The efficiency of the activity of enterprises will be measured by the volume of profit—both over short and long periods.

—The system of prices and the uniform conversion coefficient of foreign trade will be determined in such a way as to make the enterprises directly feel the favourable or unfavourable consequences of their export activities. The enterprises will be made to pay the actual cost of the import-

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ed commodity so as to allow a direct comparison between their expenditures in terms of domestic currency and the costs and receipts in terms of foreign currency.

In addition to the above we want to employ such economic measures (customs duties, credit policy etc.), as well as official regulations—e.g. the licence system—which, in accordance with the state's international commercial obligations and in harmony with the objectives of its trade policy, are conducive to an optimum export and import turnover and also ensure the most favourable export results and a rational import policy for the enterprises themselves.

All this can be resolved in the spirit of the new mechanism of the economy, dispensing with too detailed regulation but fixing at the same time the principal objectives centrally. The resolution is quite clear in this respect: The medium-range plan will be the basis also of the central direction of the foreign trade; on the basis of the prospective trends of the markets and domestic production the said medium-range plan will stake out the desirable directions of the composition of the trade.

The Difference

In other words, the difference between the old system and the new one, in terms of foreign trade, is not that the old one relied on a planned economy in foreign commerce, whereas the new one on the spontaneous forces of the market, but rather that the new mechanism aims to create an organic connection between the home market and the foreign one, on the basis of scientifically elaborated plans (meaning both short and long-term estimates of our own potentialities and the demands of the market). In this connection we quote a sentence from an article by Rezso Nyers: "The guidance of the enterprises by the state will be less tight after the reform than what it is now; in fact it will be bolder because we shall replace the method of direct guidance through plan directives by another method to be based on regulation by—principally—economic methods." That is: we want to ensure the implementation of the central ideas (laid down in long-term plans based on scientific methods and full consideration of the realities) primarily by way of economic levers. We shall refrain from issuing directives—because experience has shown that at the current development level of our productive forces, taking into account the complexity of the relations governing the national economy, we can more effectively carry out the central will without using direct instructions.

It is necessary to explain the necessity of introducing the new economic management system. In the Hungarian economy the reserves for an extensive development are about to become exhausted. In most branches of industry—owing to the tightening manpower situation but also to the necessity of large-scale investments in the national economy—the only way to raise production is by increasing the productivity of labour. The technical progress, the development of the leading productive branches make it necessary to rely increasingly on the internal resources of the enterprises, on their own accumulation potential. In the distribution of the investment funds it is becoming possible to take into consideration—besides the macro-economical aspects—also the micro-economical ones, in other words the possible performances and the economic commitments of each enterprise. The complexity of economic relations, characteristic of a modern industrialized society, is becoming emphatically true of the Hungarian economic system.

All this prompted us to enhance the independence and increase the interest of the enterprises so that these—knowing precisely their potentialities—should yield optimum performance. Another point: the guiding organs of the state must be relieved of the onerous task of setting and checking part-targets, so that they may concentrate on the main task: the determination of the principal proportions of the national economy and see that these are observed. Experience has shown also in the field of foreign commerce that the former model of centralized planning must be replaced by more elastic methods, better adjusted to the market requirements. Also in the past, when direct instructions were given to the foreign trade companies, they proved efficient only inasmuch as they happened to meet the demands of the market. The companies had had wide powers in the elaboration of the plans; in fact they always did reckon with the market situation, and whenever the latter would change, it was the plan which used to get "the worst of the bargain", having been adapted—as it often was—to the new realities.

It has always been more or less obvious to the leading organs of the Hungarian economy that the system of "planning on the enterprise level" had some undesirable effects in the field of external trade, despite the most carefully thought-out central intentions. Such reactions led the foreign trade companies, e.g. to relegate the qualitative aspect (economy, reduction in cost) into the background, whereas the quantitative aspect (maximum amount of foreign currency receipts) was in the forefront. Thus, from the very beginning we were striving to establish a system whereby the companies handling the foreign trade were faced with not only quantitative requirements but also with qualitative ones. Special incentive measures were in force to reward any saving in the price of imported products. A permanent government committee was entrusted with the regular supervision of the economy of export products, and any export product failing to show a favourable degree of rentability was soon put on the list of prohibited export goods. However, inasmuch as the complexity of economic relations was increasing, it was becoming increasingly difficult to impart, from a central point, equal emphasis to the requirements of quality and quantity. Besides, it has been observed that our enterprises had achieved a certain degree of spontaneous action as regards both production and technology and their sales policy. At this stage it had become impossible to evaluate from a central point of command every information relating to possible technical developments and marketing possibilities; thus, presumably, our central plans had no longer attained that optimum which the enterprises would have been capable of attaining, had they been given opportunity to unfold their spontaneous activities.

New Mechanism

It follows from the foregoing that the new mechanism of foreign trade will have the task of providing the link between the domestic market and the foreign ones, of increasing the independence of the enterprise, prompting them to a more complete exploitation of their resources. Simultaneously, the effective central control of foreign commerce will have to be ensured on the basis of medium-range plans. It is our conviction that this task can be realized to the full and when we say this we are not relying on theoretical assumptions only.

It is common knowledge that external trade is the very territory where the state's guidance, assistance and supervision prove strongest also in the western states. In these countries, too, the enterprises have to reckon with the "forced trajectories" of the economy, fixed by the state. Such forced trajectories will develop, for instance, if the firms have to pay higher customs duties on goods imported from certain countries, or else if "skimming" is applied to goods originating from given countries. A forced trajectory will ensue when general duties are being levied on imports. Similarly, when production for the purpose of exporting enjoys the benefit of some tax refunds. Forced trajectories will come about as a result of fixing export or import quotas for certain commodities; essentially the whole

system of credit facilities and state guarantees on credits falls into this category. Of course, the economic units moving along these forced paths still retain a great deal of their freedom of action.

One of the most essential features of the new mechanism of the economy will be that, instead of having to follow direct instructions, the companies engaged in foreign trade will be vested with full economic autonomy, whilst observing the intentions of the state's commercial policy. Regulation by means of—overwhelmingly—economic levers carries in itself the advantage that the enterprises, acting in the full knowledge of such levers, will initiate their own decisions and be responsible for them throughout. Since they will be interested in profit over long-range periods, this fact will resolve the contradiction, immanent in the existing management system, which had resulted in the conflict of the quantitative and qualitative aims—a contradiction which, parallel with the growing complexity of economic relations, the centralized management was less and less in an adequate position to dispel. Still, the economic and commercial policy and interest of the state will continue to rule the market activity of the enterprises. As referred to earlier: no state—regardless of its economic-social system—can renounce entirely the control of its foreign trade activities, to a greater or lesser degree, depending on its economic potentials.

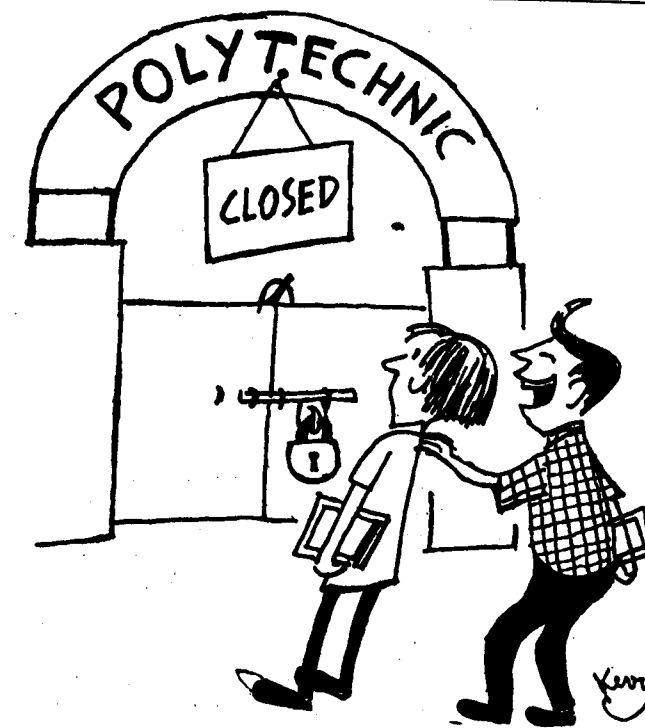
The method and degree of control will depend:

- on the role played by foreign commerce in the life of the country (the country's foreign trade "sensitivity");
- on the country's capability of ensuring the permanent equilibrium of its foreign-trade and payments balance, respectively.

Obviously, all this is interconnected with the stage of development of the country's productive forces and its raw material resources.

The foregoing had to be taken in consideration when establishing the new system of the management of foreign trade in Hungary,—a country undergoing rapid industrialization, but not over-rich in raw material resources.

(To be concluded)



"Let us wait till a VIP is available for re-inauguration."

IMF Takes Momentous Decision

Dr J. W. STROBL

RIO DE JANEIRO:

THE INTERNATIONAL Monetary Fund (IMF) delegates in Rio unquestionably faced their most momentous decision since the existing international payments arrangements were worked out at Bretton Woods in 1944. The delegates were asked to give their approval to a project that will create a new international monetary unit, or "Special Drawing Right." The proposition was worked out at a pre-conference meeting by the Big Ten nations last month: the USA, Germany, France, Britain, Canada, Belgium, Holland, Italy, Japan and Sweden.

The main objective of the IMF as visualized in its charter is to promote a freer system of world trade and payments, thereby enabling its members to achieve a steady economic growth. Under current arrangements countries now liquidate their debts with other nations either in pounds, dollars or gold at a US-pegged rate of \$35 an ounce.

In order to meet such debts, countries attempt to build their reserves of pounds, dollars, or gold in years when their exports are good. However, as is frequently the case, nations find themselves in trouble by importing more than they export in a given year or years, with the result that they expend their reserves.

Given such a development, the nations of the free world co-operate by deferring their demands for payment from the debtor country and in most instances will lend money to such a nation, allowing it time to re-establish a favourable trade balance. The agency which provides the major portion of these loans is the International Monetary Fund.

At the present time, the Fund has assets of \$21 billion, approximately one-fifth of which is in gold and the remainder in the national currencies of its 106 member countries. Each Fund member is assigned a quota or subscription for the amount of money or percentage of the Fund's total assets it — the member — must pay into the Fund as its proportionate share. This percentage determines the individual nation's voting power within the Fund and the amount of foreign exchange it may draw upon from the total assets. The percentage is reviewed periodically by the Fund's board of governors. The Fund, under its charter, is also authorized to supplement its resources by borrowing, which it did in 1962 when a group of ten nations agreed to lend it \$6 billion over a four-year period.

Payments Deficits

Since the commencement of the Marshall Plan in 1943, the US, originally through design but ultimately by "accident" has been financing the world trading by running fairly steady payments deficits. The reasons, to cite a few were: foreign aid, military involvements, defence establishments and tourism imbalance. They all contributed to draining the US reserves (approx. 50 per cent of such reserves since World War II), but have on the other hand furnished the wherewithal for world trade.

In recent years there has been a rising clamour from financial experts everywhere for the US to put its imbalance of payments into line. This has been especially true of the French who have shown their distaste for the situation by promptly trading in their surplus dollars for US gold.

The problem, however, is somewhat more complex in that if the US does finally shut off the flow of excess dollars, what sort of medium will support this world trade which in the past ten years has doubled to \$192 billion? The Fund has its nest-egg of \$21 billion, yet restrictions on what member nations may borrow, plus the fact that such loans must eventually be repaid has rendered even this inadequate. The

mining of new gold cannot begin to keep up with the increase in world trade year by year.

The French had been attempting for some years to gain US approval on raising the price of gold from the US supported price of \$35 an ounce to somewhere around \$70 an ounce. They have argued that since everything else has inflated over the years, why not the price of gold? Doubling the price of gold, they said would insure adequate reserves for world commerce. The US has resisted the argument by pointing out that, firstly, it would give an unfair bonanza to those nations that have extensive deposits of the metal and, secondly, the US would be breaking faith with those nations of the world which have structured their financial policies and more importantly, their reserves, in accordance with the US insistence that it would never consent to such a move. Beyond this, the US pointed out that such a move would be a temporary solution of the problem since clearly, in future years, the growth in world commerce would require yet another modification in the price of gold. If the free nations of the world concluded that such alterations were to become habitual they would be reluctant to keep their reserves in dollars, thereby creating an excessive demand for gold and hence defeating the original purpose of raising its price.

This was the background last month as the Big Ten met prior to the full conference of the 106 members this week in Rio. What they came up with was a bold stroke that hopefully will strengthen the international monetary arrangement. Basically simple in its theory, startling in its ramifications, it is in essence a breakthrough in international co-operation and undoubtedly the most revolutionary idea the international bankers have arrived at since the creation of the Fund at Bretton Woods.

Special Drawing Rights

The "Special Drawing Rights" plan proposes that the Fund will write into its books new reserves of between \$1-2 billion per year. Gold, dollars and pounds will still be used in payments and reserves but in addition each member nation will be given a proportionate share in this reserve pool. This share will depend on its existing contribution or subscription to the Fund. Thus, the US which contributes 24.6 per cent of the gold and dollars in the Fund will command \$246 million of each additional \$1 billion that will be created.

In paying its debts to other nations the US or any country can use these "SDR" units. The most radical aspect is that 70 per cent of these new units need never be repaid. They are in effect newly created money. One specific limitation would prevent a member from accumulating more than 200 per cent of the SDR allotment over given five-year periods. Anything over and above must be repaid to the Fund or sold off, either bilaterally with another nation or through the Fund.

The SDR project is not visualized as becoming effective prior to 1969 at the earliest. This is primarily due to two reasons. One is that many nations must gain the approval of their legislative or parliamentary bodies. Such approval is usually a drawn-out affair.

The second reason is that most countries are insistent that the US straighten out its payments problem prior to initiating the new arrangement. With the Vietnam war on its hands for the immediate future at least, it appears unlikely that the US will soon be in such a position.

The SDRs in the coming years must prove their workability. It remains to be seen whether the free world nations will be hesitant in accepting these new monetary units in place of the usual "hard" currencies or gold. It is nevertheless a revolutionary step and if they prove their worth, SDRs should provide a permanent answer to monetary shortages.

Trade Winds

I.F.C. ANNUAL REPORT

VIEWED AGAINST the background of stresses and strains on our economy, the performance of the Industrial Finance Corporation during the year ended June 30, 1967, was sufficiently creditable, said its chairman, Mr N.D. Nangia, at a press conference in New Delhi on September 28. According to the 19th Annual Report of the corporation, its disbursement of assistance to industries touched the peak figure of Rs 37.81 crores. Out of this, cash disbursements amounted to Rs 32.17 crores. With this, the amount of assistance disbursed by the IFC during the 19 years of its operation totalled Rs 239.34 crores out of which cash disbursements totalled Rs 191.18 crores. The gross and net profits of the corporation in 1966-67, amounted to Rs 3.45 crores and Rs 1.65 crores respectively, the highest earned by the IFC since its inception in 1948. During the year, the IFC sanctioned financial assistance amounting to Rs 22.55 crores to a total of 56 industrial units, as against Rs 43.52 crores to 96 units the year before. This was because it had to restrict its financial assistance only to industrial projects in the priority sector, owing largely to limited availability of resources. The rupee loans amounted to Rs 11.74 crores, constituting 52 per cent of the total sanctioned amount of Rs 22.55 crores, foreign currency loans amounted to Rs 3.95 crores (18 per cent), underwritings to the extent of Rs 2.20 crores (10 per cent) and deferred payment guarantees for Rs 4.57 crores (20 per cent). At the end of the year under review, 101 applications for financial assistance for an aggregate amount of Rs 122.67 crores from 59 concerns were in various stages of processing. Financial assistance of about Rs 20.95 crores was extended to different public limited companies and the balance of Rs 1.60 crores to units in the co-operative sector. During 1966-67, the IFC sanctioned 37 rupee loans amounting to over Rs 11.74 crores, while cash assistance disbursed on this account amounted to Rs 22.64 crores. It sanctioned 25 foreign currency loans for Rs 3.95 crores in respect of 18 applications. It opened letters of credit amounting to \$ 3.66 million and DM 11.01 million (total of over Rs 5 crores) in favour of foreign machinery suppliers. Disbursement of loans amounted to \$ 4.25 million, DM 16.33 million and 1.08 million francs, totalling over Rs 6.63 crores, which was only marginally lower than the Rs 6.75 crores disbursed in 1965-66. The corporation sanctioned 17 applications for underwriting for a total of about Rs 2.19 crores comprising equity shares of Rs 1.14 crores, preference shares of Rs 15.50 lakhs and debentures of Rs 90 lakhs. It underwrote shares and debentures of a total value of Rs 2.31 crores in respect of 22 issues, while shares amounting to Rs 2.17 crores devolved on it. It sanctioned and issued deferred payment guarantees to suppliers of plant and machinery for Rs 4.57 crores and Rs 3.18 crores respectively.

During the year under review, the IFC raised Rs 6 crores by a public issue of bonds with a 12-year maturity period and it borrowed Rs 15.50 crores from the central government. A fifth loan of DM 10 million was secured from the West German Reconstruction Loan Corporation.

I.F.C. LOAN

The Industrial Finance Corporation of India is to issue bonds for Rs 8 crores (5½ per cent Bonds, 1979). The list will open on October 16, 1967, and will close on October 21 or earlier as soon as the issue is fully subscribed. Applications will be received at the offices of the Reserve Bank of India at Bangalore, Bombay, Calcutta, Madras, Nagpur and New Delhi. The bonds are fully guaranteed by the central government in regard to repayment of principal and payment of interest, and are approved securities under the Indian Trusts Act, the Insurance Act and the Banking Companies Act. They will have a maturity of 12 years and will carry interest at 5½ per cent per

annum. The issue price will be Rs 98 for every Rs 100 of the bonds applied for. 4½ per cent IFC Bonds 1967 due for redemption on November 25, 1967, will also be accepted for conversion at par into these bonds. The bonds will be eligible securities for purposes of advances to scheduled banks by the Reserve Bank of India under Section 17(4) (a) of the Reserve Bank of India Act, and will also be included in the list of approved securities of the State Bank of India. The usual brokerage of six paise per Rs 100 will be paid to the recognised brokers and banks on the allotments made on applications bearing their stamp. Arrangements will be made for the listing of the bonds with Bombay, Calcutta and Madras stock exchanges. The corporation has already issued eight series of bonds for an aggregate amount of Rs 39.60 crores.

AGRICULTURAL PRICES COMMISSION

In its report released last month, the Agricultural Prices Commission, which was working on a price policy for kharif cereals for the 1967-68 season, has made the following major recommendations: (a) in view of the prospects of a considerable increase in foodgrains output this year, the country's dependence on food imports should be substantially reduced; (b) a beginning should be made to build a buffer stock of foodgrains of the order of two to three million tonnes this year; (c) a domestic procurement target of more than eight million tonnes should be set for 1967-68, of which at least seven million tonnes should be from the kharif crop consisting of 5.1 million tonnes of rice and 1.9 million tonnes of coarse grains; (d) a producer levy should be introduced in all states and for all crops for which procurement targets are set; (e) the quantum of domestic coarse grains made available through the public distribution system should be raised appreciably; (f) the existing subsidies in the issue prices of imported foodgrains should be dispensed with; (g) the level of procurement prices this year should reflect both the likely improvement in foodgrain output as well as the need for restraining the inflationary pressures currently prevailing in the economy; and (h) the distortions which have crept into the structure of inter-state and inter-grain price relationships, as a result particularly of the developments in the past two years, should be gradually eliminated.

INDUSTRIAL LICENSING BODY

The three-member expert committee which is inquiring into the working of the industrial licensing system during the last 10 years has sought the co-operation of interested individuals, firms and institutions in its working. Facts, views and comments in the form of memoranda and germane to its terms of reference will be received by the secretary of the committee till November 1, 1967. Any information furnished will be used only for the work of the committee. The committee will: (i) inquire into the working of the industrial licensing system in the last ten years with a view to ascertaining whether the larger industrial houses have, in fact, secured undue advantage over other applicants in the matter of issue of such licenses, and if they have received a disproportionately large share of such licences, whether there was sufficient justification for this; (ii) assess to what extent the licences issued to the larger industrial houses have been actually implemented and whether the failure to do so has resulted in pre-emption of capacity and the shutting out of other entrepreneurs; (iii) examine to what extent the licences issued have been in consonance with the policy of the government as laid down in the Industrial Policy Resolution of April 30, 1956, particularly in regard to the regional dispersal of industries, the growth of small-scale and medium industries and the policy of import substitution; and (iv) to inquire whether the policies followed by specialised financial institutions such as the Industrial Finance Corporation and the

Industrial Credit and Investment Corporation of India in advancing loans to industries have resulted in any undue preference being given to the larger industrial houses, and if so how far. Communications may be addressed to the Secretary, Expert Committee on Industrial Licensing Policy, Department of Industrial Development, Government of India, Post Bag No. 9, New Delhi.

AGRICULTURAL CREDIT BY BANKS

Commercial banks are expected to commence shortly direct financing of agricultural programmes in a big way. The State Bank of India recently agreed to finance agriculturists directly with short, medium and long-term loans in a few districts of Uttar Pradesh. In a circular letter to state governments, the Government of India says that in order to enable the State Bank of India and other commercial banks to come into the field of agricultural credit in a big way it will be necessary for the state governments to provide them with certain facilities such as administrative support for carrying out necessary preinvestment survey, technical assistance of the agriculture department and statutory facilities with regard to recovery of dues on the lines of the facilities available to co-operative credit structure. In order to enable scheduled commercial banks to promote schemes of agricultural development, the Reserve Bank of India has agreed to provide some incentives. These incentives will be in the form of exemption of borrowings in certain cases for the purpose of computing the liquidity ratio of the bank and for maintenance of the statutory level of cash reserves and liquid assets. The Agricultural Refinance Corporation has also decided to provide refinance facilities to scheduled commercial banks for financing certain schemes of agricultural development such as dairy and poultry farming, purchase of agricultural machinery and installation of pump sets for private minor irrigation works. The Government of India has asked the state governments to take advantage of the increasing response of commercial banks to finance agricultural operations. It is expected that it would be possible to commence direct agricultural financing by commercial banks before kharif, 1968. It may be added here that the co-operative sector is expected to provide about Rs 600 crores as short, medium and long-term agricultural credit during 1967-68.

FERTILIZER COMPLEX BY TATAS

Tata Chemicals are planning to establish a major fertilizer complex at Okhamandal in Gujarat at an estimated cost of Rs 200 crores. Phased over a period of seven to eight years, the project, when fully developed, will be the largest single fertilizer unit in the country and the world. It will ultimately produce 2.3 million tonnes of fertilizer material (containing 1.16 million tonnes of balanced plant nutrients) capable of increasing food production by over 12 to 15 million tonnes per year, sufficient to feed 60 to 70 million people. The project, which is estimated to save and earn over a ten-year period foreign exchange amounting to Rs 100 crores, will also result in import substitution of about 340,000 tonnes of sulphur per year and substantial quantities of potash, both of which will be recovered from the sea. It is also expected to produce large export surpluses of high quality salt and bromine.

The fertilizer complex is planned ultimately to develop into a large agro-industrial complex which, by harnessing the inexhaustible resources of the sea, the sun and nuclear energy and by utilizing the mineral resources in the vicinity, will supply water for seed farms and pasture lands of Okhamandal fertilizers, pesticides, aluminium, magnesium, elemental phosphorus and proteins. Made up of numerous integrated enterprises in the private, public and co-operative sector, the complex will also have a nuclear energy centre which, in addition to providing 500 mw of power, will produce by the desalination of sea water a hundred million per day of fresh water. An outline of this project was explained by Mr J. R. D. Tata, Chairman of

Tata Chemicals, to the Prime Minister, Mrs Indira Gandhi, when she visited Mithapur recently.

HALDIA REFINERY PACT SIGNED

The Government of India signed on September 29 two agreements with French parties for setting up at Haldia an oil refinery with an annual capacity of 2.5 million tonnes. Of the estimated capital investment of Rs 46 crores (up to half of which may be in foreign exchange), the French assistance will not exceed \$20 million. This fully government-owned project, with no capital participation by any foreign party, will be executed by the Indian Oil Corporation. The main refinery construction is expected to be completed in the second half of 1970 and the output of lubricating oil is expected to begin in the following year. One of the agreements envisages a limited obligation on the part of the Government of India to buy crude from French sources. The quantity will be at the rate of 50 per cent of the annual requirements of the refinery for the first five or six years.

GUJARAT GAS AWARD

Dr V.K.R.V. Rao who had agreed in February 1964 to serve as arbitrator in the dispute between the Gujarat state government and the Oil and Natural Gas Commission in respect of the price to be paid for natural gas and associated gas, gave his award last week. The principal findings of the award are: there will be one well-head value for both Ankleswar and Cambay gas; and this will be Rs 50 per 1000 CM, of gas. Sale price, exclusive of transport charges to the consumer hence, will be Rs 59.36 per 1000 cubic metres of gas, made up of the following three components: well-head value Rs 50; royalty Rs 6; and sales tax Rs 3.36. The price will be effective for a period of five years ending with March 1971; and will also apply to the gas sold during earlier years. Transport charges will be Rs 3.50 per 1000 CM in the case of Cambay gas for delivery at Dhuvaran; in the case of Ankleswar gas, while the operational charges of transport will be uniform at one rupee per 1000 CM, the depreciation charge will depend upon the distribution of the entire estimated output during the five-year period between the Utaran and Baroda consumers. The amount of depreciation to be allotted during the entire five-year period is Rs 32.16 lakhs in the case of Ankleswar-Utaran and Rs 74.56 lakhs in the case of Ankleswar-Baroda. Taking the estimated entire output of Ankleswar gas during the five-year period and allotting to it the total depreciation charges chargeable to both the Ankleswar-Utaran and the Ankleswar-Baroda pipe line during the period, the depreciation charges to be included in the transport of Ankleswar gas would come to Rs 11.2 per 1000 CM. Obviously, the charge would be much less in the case of Ankleswar-Utaran and somewhat more in the case of Ankleswar-Baroda. If any change takes place in the rate of royalty payment or sales tax, the price will be adjusted accordingly. A new price should be fixed for the next five-year period beginning with April 1971, after undertaking a thorough review of the actual position regarding output, outlay, and demand during the period covered by the award. Any adjustment needed in the light of this review should be incorporated in the price to be fixed for the next five-year period, in the form of a discount or a premium, as the case may be, for implementing the basic formula of this award in the light of realised facts regarding output and outlay during the period covered by the award.

EXPORT EARNINGS LIMIT EXTENDED

The Reserve Bank of India has decided to allow exporters extension of time limit for repatriation of the foreign exchange proceeds of exports of certain categories of engineering goods up to a maximum period of seven years instead of five years allowed at present. The time-limit for repatriation of export earnings in the normal course is six months. Extensions up to ten years may also be granted in exceptional circumstances

where the value of the order and the nature of the goods so warrant and order would be lost otherwise. In cases where the Industrial Development Bank of India has agreed to provide refinancing facilities in respect of the proposed exports, a reference to such approval should be cited in the application to the Exchange Control Department to facilitate expeditious disposal.

L.I.C. BUSINESS IN AUGUST

The total new business of the Life Insurance Corporation of India in August 1967 amounted to Rs 59.80 crores. This included foreign business of Rs 79 lakhs. During the month, the southern zone of the corporation completed the highest amount of new business worth Rs 16.68 crores followed by the western zone with Rs 15.18 crores and the eastern zone with Rs 11.02 crores. The northern and the central zone did business worth Rs 8.41 crores and Rs 7.72 crores respectively. The total business completed by the corporation, including foreign business, during the first five months of the current financial year (April to August 1967) was worth Rs 201.06 crores compared to Rs 199.24 crores during the corresponding period of the financial year 1966-67.

CUMULATIVE TIME DEPOSITS

Deposits in the Cumulative Time Deposit Accounts, which were hitherto payable monthly, can now be made in advance for periods of twelve months or six months. Such advance deposits will qualify for rebate. The rebate for 12 advance monthly deposits will be Rs 2.80 and for six advance monthly deposits Rs 0.70 in an account of Rs 10 denomination. Proportionate rebate will be admissible in the case of accounts of other denominations.

COTTON SUPPORT PRICES BODY

A committee headed by Mr R. C. Saraiya has been appointed by the Government of India for the 1967-68 cotton season to deal with disputes that may arise in respect of quality or support price of Indian cottons and to issue certificates in respect of exportable varieties of Indian cottons. Besides the Chairman, the committee consists of the following members: Mr Jehangir P. Patel, Mr Nariman Contractor, Mr Tricumdas Chhabildas, Mr J.K.S. Nicholson, Mr Dayaljiibhai G. Patel, Mr K.M. Patil, Mr Thakur Naharsingh, Mr R.V. Sirur and Mr R.D. Shah.

JUTE FORWARD TRADING

The East India Jute and Hessian Exchange Limited, Calcutta, 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 September 29.

FILM FINANCE CORPN.

The Film Finance Corporation, a public sector undertaking, has been reconstituted, under the chairmanship of Mr Himmat Singh. It will have as directors, Mr P. K. Samal, Joint Secretary, union Ministry of Information and Broadcasting; Mr F. H. Vallibhoy, Joint Secretary, union Ministry of Finance; Mr J. C. Jain, Bombay, Mr Roshanlal Malhotra, President, Film Federation of India, Mr Chidanand Das Gupta, Calcutta and Mr G. B. Newalkar, Secretary, Maharashtra State Citizens Council, Bombay.

GOBINDPURA SEED FARM

What was a patch of arid land barely two years ago has been transformed into a promising seed farm at Gobindpura in Haryana, thanks to the mechanized and scientific farming

methods. The 850-acre farm is by and large a co-operative enterprise of ex-Army officers, junior commissioned officers and soldiers, headed by Col. G. S. Brar (Retd.). There are as many as 24 tubewells at the farm and the high gradient has been put under crop with the help of underground irrigation. Experiments in seed growing are being conducted under the supervision of the Punjab Agricultural University and the Pusa Institute, New Delhi. The farm observed its "Field Day" last week when a demonstration of modern farm machines was held and a tour of the standing seed crops of maize and paddy was conducted.

EMERGENCY RISKS INSURANCE

The duration of the existing policies issued under the Emergency Risks (Goods & Factories) Insurance Schemes has been extended for a further period of three months. No premium will be payable in respect of policies which were in force on September 30, 1967. As regards property which became insurable for the first time on or after October 1, 1967, the rates of premium will continue to be the same as in the quarter June-September 1967, namely, for goods establishments six paise for every hundred rupees or any part thereof of the sum insured, and for factories ten paise for every hundred rupees or any part thereof of the sum insured, subject to a maximum of Rs 25 in each case.

RUBBER PLANTATIONS BODY

A five-man committee, headed by Mr T. M. Abdullah, has been constituted to study the economics of small rubber plantations and to suggest such measures as may be necessary to improve the efficiency and to contribute to the stability of this sector. The committee which will submit its report to the Government of India within six months, will take into account the various kinds of assistance that is already being extended to the small growers by the Rubber Board and consider whether any additional assistance to this sector is necessary and, if so, suggest the manner and extent to which such assistance should be given and the period for which it should be continued; consider and advise the government on other measures which are required to be taken to enable the small growers to attain economic viability on the basis of the fair selling prices of raw rubber accepted by the government; and advise the government on the role of co-operatives in stabilising the small sector.

INDIA-UAR-YUGOSLAVIA: TRADE PREFERENCES

The India-UAR-Yugoslavia working group on preferences, which concluded its second meeting at Belgrade last month, has succeeded in evolving a common list of items on which the three countries could exchange preferences, which will lead to a considerable expansion and addition to the trade of the three countries. The common list of commodities has been evolved in such a way to reflect the "export interests" of all the three countries. The meeting not only confirmed the common list of items but also succeeded in adding some more items on which preferences could be exchanged. The meeting also identified some more fields in which it was possible to exchange preferences. The common list of items generally includes manufactured items such as industrial and engineering products, chemical products and also certain processed foods. It is expected that the exchange of preferences on the items included in the common list would lead to increase in trade between the three countries. The working group is scheduled to meet again some time in the later half of October this year when besides finalising the common list of items, it will also frame rules of origin of goods which will be traded and complete other formalities for drawing up a protocol. It will then be in a position to submit its report to the joint committee which will later on be discussed by the Ministers of the three countries. Ultimately the decisions on the recommendations will have to be taken by the three governments.

Company Affairs

RATNAKAR SHIPPING

RATNAKAR SHIPPING Co. Ltd has shown marked improvement in freight and charter hire with income rising to Rs 308.56 lakhs during the year ended March 31, 1967, against Rs 126.27 lakhs in the previous year. Besides, insurance claim for a vessel lost has also realised Rs 28.18 lakhs. After providing Rs 47.30 lakhs for depreciation, Rs 2.24 lakhs for managing agents' remuneration, Rs 33.68 lakhs for interest and Rs 3 lakhs for sundry provision, the company's profit has amounted to Rs 33.84 lakhs against Rs 16.71 lakhs last year. Development rebate reserve fund gets Rs 30 lakhs and the proposed dividend on equity shares at 7.5 per cent (5 per cent) will absorb Rs 3.80 lakhs.

The directors have reported that m.t. "Ratna Jayshree" and m.v. "Ratna Jyoti" were added to the fleet of the company during the year under review. The original deadweight tonnage of m.t. "Ratna Jayshree" at the time of delivery was 53,061 tons but due to amendment in the loadline rules, her deadweight tonnage has now been increased to 59,284 tons. The total tonnage of the company presently stands at 1,03,851 deadweight tons. Further expansion plans are in hand. The directors have stated that devaluation has made coastal shipping more uneconomic. Costs, they add, have gone up all round and after several representations by the industry, the government has now finally announced an increase of 10 per cent in the coastal freight rates effective from July 1, 1967. This increase will hardly be adequate to offset the rise in operational costs which has taken place since the last increase in coastal freight rates in August, 1965, they point out.

HINDUSTAN INSECTICIDES

Mr K. P. Madhavan Nair, Chairman, Hindustan Insecticides Ltd, pointed out at the annual general meeting held recently that during 1966-67 both the factories of the company at Delhi and Alwaye created all time production records in the manufacture of technical DDT. The Delhi factory turned out 1,556 tonnes and Alwaye unit 1,536 tonnes of technical DDT. The turnover of Rs 186.86 lakhs was also a record for any financial year. Mr Nair stated that these figures gain added significance when placed against the rated capacity of both these plants which was only 1,344 tonnes per year. He added, that the company was installing two more pesticides plants one at Delhi alongside the existing factory to manufacture 1,400 tonnes of technical DDT per annum and the other for the manufacture of 3,000 tonnes per year of BHC containing 13 to 16 per cent gama isomer at Alwaye adjoining the existing factory. These two plants were likely to go into commercial production towards the end of 1968. The company also submitted feasibility reports to the government for a 4,000 tonnes DDT plant based on the conventional process of utilising alcohol as one of the principal raw materials, and the second feasibility report for 500 tonnes lindane project. The company had also proposed to draw a feasibility report for 5,000 to 6,000 tonnes DDT plant based on acetaldehyde instead of alcohol, and 2,000 tonnes fortified BHC plant containing 45 per cent gama isomer in place of lindane project. It was felt that a DDT plant based on acetaldehyde could prove better than the one based on alcohol as one of the main raw materials.

The company, the chairman added, was also formulating proposals for undertaking various formulations of DDT as also of BHC for use in agricultural pest control. He remarked that consultations were in progress with two large fertilizer manufacturing companies in the public sector to develop a scheme for marketing of pesticides and fertilizers from the same bulk depots in the various regions of the country. There would be marked advantages of marketing important agricultural inputs from the same depots and it would propagate the use of

pesticides by more agriculturists. It was pointed out that the proposals were in progress to set up similar DDT factories in Ceylon, Indonesia, Malaysia, Thailand and Philippines by exporting our know-how.

ALUMINIUM INDUSTRIES

Mr S. Narayanaswamy, Chairman, the Aluminium Industries Ltd, pointed out in his speech delivered at the annual general meeting of the company held recently that during the year ended March 31, 1967, the company recorded a profit of Rs 57.96 lakhs after providing for depreciation. This revealed a fall in earnings by nearly Rs 14 lakhs and was in turn caused by a fall in sales by Rs 54 lakhs as against the previous year. The chairman pointed out that decline in profits was the cumulative result of inadequate raw materials supply, electricity cuts, higher operating costs and mounting interest charges which compelled directors to cut the dividend to 12 per cent for a year. The Board, he added, had to pass over the interim dividend because the final picture about profits was not clear at the time of declaration. He, however, added that the sales of insulated cables revealed substantial improvement over the previous year.

Mr Narayanaswamy pointed out that expansion and diversification programmes of the company reached an important milestone during the year and expansion of capacity in bare conductors had been achieved. The new machines installed should make for higher-strand production at greater speed. The cable making machinery project made considerable headway with the completion of civil works and procurement of indigenous machinery. The foreign component of plant and machinery manufactured by the Japanese collaborators of the Company was ready for shipment and was expected to arrive in this country towards the end of the current year. The unit was expected to be commissioned towards the third quarter of 1968. The high voltage switch gear project to be established at Mannar had also made fair progress and technical and collaboration agreements with M/s Delle-Alsthom of France were being finalised. The recent issue of preference capital was in part intended to finance this switch gear project. The Chairman added that the completion of the two new projects would secure a healthy diversification in the activities of the company.

BALLARPUR PAPER

The Ballarpur Paper & Straw Board Mills Ltd will enter the capital market on October 14 with an issue of Rs 45 lakhs made up of 45,000 (9.3 per cent, free of company's tax but subject to deduction of tax at source at the prescribed rates) redeemable cumulative preference shares of Rs 100 each. The subscription list will close on October 30, 1967, or earlier at the discretion of the directors but not before October 19, 1967. The entire issue has been underwritten. The company has an authorised capital of Rs 5.17 crores and issued capital of Rs 2.22 crores. Its subscribed and paid-up capital is Rs 2.04 crores.

In 1960 the company undertook an expansion programme (estimated to cost Rs 9 crores) for raising its production to 130 to 140 tonnes of paper a day. Save for the mono-sulphite pulp mill (for the manufacture of grease proof pulp for conversion into grease proof paper) the expansion work undertaken by the company has been completed resulting in an increase in the company's production of paper to 130 tonnes of paper per day approximately. The mono-sulphite pulp mill, which is expected to be completed by the end of 1967 will enlarge the range of the company's manufacture enabling it to make grease proof paper which has a ready demand. Besides the paper mill, a stationery unit, having automatic exercise book making machines has also been in existence since 1956. This has since been progressively expanded by the installation

of ruling machines and printing presses. The company proposes in due course to install another MG machine with a capacity of about 30 tonnes per day and a 20-ton per day electrolytic bleach plant for the manufacture of chlorine and caustic soda which are required for the manufacture of paper.

MARSHALL, SONS AND CO.

Marshall, Sons and Co. (Manufacturing) Ltd entered the market on September 28 with an issue of Rs 19.48 lakhs comprising equity shares of Rs 11.98 lakhs and preference shares of Rs 7.50 lakhs. The subscription list will close on or before October 12 but not before October 3. The proceeds of the present issue will be utilised for setting up a bigger factory and plant for the manufacture of all the licensed items with increased capacity.

BHARAT CO-OPERATIVE PAPER MILLS

The Bharat Co-operative Paper Mills Ltd, a joint venture of four co-operative sugar mills in Maharashtra, has undertaken to produce writing and printing papers from bagasse adopting Simon-Cusi high-yield semi-chemical process. Initially, the plant will produce 160 tons of paper per day and a small amount of excess market pulp for sale to the neighbouring mills. The layout of the plant will provide for later addition of a second paper machine together with the expansion of the pulp plant, so as to raise the capacity to 320 tonnes per day of paper plus market pulp according to demand.

The cost of the project is estimated at Rs 27.90 crores, including foreign exchange equivalent of Rs 10.20 crores. The cost of the plant and machinery is estimated at Rs 21.20 crores including foreign exchange equivalent of Rs 8.40 crores. The total cost of Rs 27.90 crores will be met by equity capital of Rs 10 crores, loans in foreign currencies of Rs 10.20 crores and in rupees of Rs 7.70 crores. Of the equity capital of Rs 10 crores, shares worth about Rs 5 crores are expected to be taken by the central government, Rs 2.50 crores by the Maharashtra government and the balance will be taken up by the four promoting co-operative sugar factories and offered for public subscription.

BRITANNIA ENGINEERING

The substantial decline in sales from Rs 514.47 lakhs to Rs 462.14 lakhs was reflected in the working of the Britannia Engineering Co. Ltd, for the year ended December 31, 1966. In this connection, the directors stated that while the offtake of road-rollers was not unsatisfactory, the sales of tea and jute machinery declined. There was also no improvement in the offtake of railway wagons, while raw materials difficulties in regard to pushing up production of railway couplings continued. The demand for steel castings was also very low and the situation was further aggravated by many more new foundries being installed. With the result, the accounts, after providing for depreciation, revealed a loss of Rs 24.04 lakhs against a net profit of Rs 26.14 lakhs in 1965-66. Depreciation was raised to Rs 22.17 lakhs from Rs 20.90 lakhs, while no provisions were made for taxation and development rebate reserve. After transferring Rs 23.81 lakhs from general reserve, the debit balance of Rs 24.04 lakhs was reduced to a credit balance of Rs 418. The dividend on the ordinary shares was skipped against 10 per cent paid previously.

TELCO

Telco will pay Rs 75 lakhs, including ex-gratia payment, as bonus to its employees for 1966-67, according to an agreement reached between the management and the union. Of this, Rs 19.20 lakhs is the amount payable under the Bonus Act and Rs 55.80 lakhs is the ex-gratia contribution of the company. This year's bonus is Rs 10 lakhs more than the Rs 65 lakhs paid last year by Telco, of which Rs 16.04 lakhs was payable under

the law and Rs 48 lakhs was the company's ex-gratia contribution.

HULDIBARI TEA

The directors of the Huldibari Tea Co. Ltd have decided to capitalize Rs 5.50 lakhs from general reserve and issue bonus shares to the existing equity shareholders in the ratio of one-for-three. An application has been made to the Controller of Capital Issues for necessary sanction.

NEW CHUMTA TEA

The directors of the New Chumta Tea Co. Ltd have decided to capitalize Rs 4.50 lakhs from general reserve and issue bonus shares to the existing equity shareholders in the ratio of one-for-two. An application has been made to the Controller of Capital Issues for necessary sanction.

UNIT TRUST

The sale price of a unit of the Unit Trust of India was raised by five paise to Rs 10.15 with effect from September 27, 1967. The repurchase price from September 27, however, remained unchanged at Rs 10 per unit.

CAPITAL AND BONUS ISSUES

Consent has been accorded to ten companies to issue bonus shares exceeding Rs 1.81 crores. The amount of bonus shares ranges between Rs 77,200 and Rs 1.25 crores. The consents are valid for 12 months.

New Shorrock Spinning & Mfg Co. Ltd, Ahmedabad. has been accorded consent to capitalise Rs 1.25 crores out of Share Premium Account and general reserve and issue fully-paid equity shares of Rs 125 each as bonus shares in the ratio of one bonus share for every equity share held.

Cooper Engineering Ltd, Bombay, is permitted to capitalise Rs 13,56,000 out of general reserve and issue fully-paid equity shares of Rs 100 each as bonus shares in the ratio of one for 11 held.

Svadeshi Mills Co. Ltd, Bombay, has been given consent to capitalise Rs 11 lakhs out of general reserve and issue fully-paid equity shares of Rs 100 each as bonus shares in the ratio of one for 10 held.

Mulchandani Electrical & Radio Industries Ltd, Bombay, has been granted permission to capitalise Rs 10 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.

Anil Hardboards Ltd, Bombay, has been accorded consent to capitalise Rs 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 10 held.

Metro Wood & Engineering Works (Private) Ltd, Kalol (Gujarat), is permitted 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 three held.

Sundaram Finance Ltd, Madras, has been granted consent to capitalise Rs 5 lakhs out of free reserve and issue fully-paid equity shares of Rs 100 each as bonus shares in the ratio of one for sixteen fully-paid equity shares held.

J.K. (Bombay) Private Ltd, Bombay, has been accorded permission to capitalise Rs 4 lakhs out of general reserve and issue fully-paid equity shares of Rs 100 each as bonus shares in the ratio of 8 bonus shares for every share held.

Montana 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 one held.

Sakal Papers Private Ltd, Poona, is also permitted to capitalise Rs 77,200 out of general reserve and issue fully-paid equity shares of Rs 100 each as bonus shares in the ratio of one for four held.

BOOKS BRIEFLY

Air Transport

Economic Development of Indian Air Transport: By A. W. Nawab; National Publishing House, Delhi-7; Price Rs 35.

Reviewed by Dr H. B. DESAI

Literature highlighting the economic and commercial aspects of Indian air transport is hard to come by. Mr A. W. Nawab, author of **Economic Development of Indian Air Transport**, deserves compliments for bringing out this comprehensive volume detailing the growth of air transport in India. Being the first book of its kind on the subject, the author has appropriately dealt with its early evolution and subsequent developments, embracing the efforts of private air companies as also its eventual takeover by public corporations.

The volume runs into three parts. Part I begins with a brief account of the early history of air transport and goes on to trace the events in three phases: pre-war period from 1932 to 1945, post-war period from 1946 to 1952 and post-nationalisation period from 1953 to 1966. Parts II and III deal with the growth and development of Air-India and Indian Airlines Corporation. The book also discusses important matters such as public aid to air industry, unprofitable nature of operations, and pros and cons of nationalisation. With reference to individual corporations, exhaustive information and data have been provided on the organisation, management and actual operations. Significant questions such as economic controls, management aids, organisational reforms and cost pattern have been dealt with in detail.

While recognising the general utility of this work as a reference volume, we cannot help pointing out a few of its limitations. With 'Economic Development of Indian Air Transport' as the title of the book, we would have expected to learn from it the economics of air transport dealing with aspects like economic characteristics of the industry and its commercial hazards, freight-making policy, cargo and passenger markets, and other related matters along with a general narration of its history. There is enough matter in the book on these subjects, but it is not presented in a compact form nor in a logical sequence.

Misplaced Narration

One would readily appreciate the efforts of the pioneers of the industry but verbatim reproduction of their autobiographical narrations is misplaced. The mode of presentation, chosen by the author, suggests that the title 'The Story of Indian Air Transport' would have been more appropriate for the book. The verbatim reproduction of Government Acts and reports on Indian air transport and public opinion on the working of individual corporations is equally misplaced. The author could better have developed discussion on important points emerging out of such literature for provoking thought on them. In the same way, the information and data based on the annual reports of individual corporations could have been systematically summarised under relevant heads for the period covered by the study. This would have given the readers a synoptic view of the total picture. On the basis of such a presentation, the author could have given the readers his own appraisal of the working of each corporation.

Along with tourism, a few pages of the book should have been devoted to facilities provided for movement of cargo traffic on internal as well as external routes. Inclusion of such topical matters as export promotion by air shipment could have enhanced the value of the book. This is so because a study of

the cargo traffic handled by the Indian Airlines Corporation in its internal network has shown a trend towards contraction of capacity made available. It also appears that the freight rates charged and the facilities provided have not been sensitive to traffic needs. These are required to be reviewed in the context of export traffic so that the freight rates charged by the domestic airlines as an ancillary to international air transportation and the procedure applied particularly with reference to the customs requirements are so streamlined that there is minimum interval between internal despatch and arrival at places of destination.

Lastly, the presentation of such a serious subject as air transport in a popular style appears rather odd. The author should have preferred a sober diction. The emotional overtones of the preface could have been avoided. As a fitting climax (rather anti-climax) to all these, the publishers also thought of keeping the price of this publication in conformity with the usual high price of an air ticket. This is bound to restrict the readership.

SOCIETIES REGISTRATION ACT

The Societies Registration Act: By S. K. Aiyar, Advocate, High Court, Allahabad; published by the University Book Agency, Elgin Road, Allahabad; Pp. 108; price Rs 7.50.

Reviewed by A. P. AGARWAL

Mr S. K. Aiyar's book dealing with the Societies Registration Act has been revised by Mr T. N. Hukku, advocate of the High Court, Allahabad. This is the third edition of this book and deals with various legal aspects of the promotion of societies dealing with art, science, literature, culture, charitable purposes, and so on. In addition to reproducing the Societies Registration Act of 1860 in original, the book under review provides all the up-to-date changes which have been made along with some of the most significant decisions of various courts dealing with controversial aspects of the Act. As a comprehensive publication covering formation, functioning and dissolution of the societies, the book is a must for persons who may be interested in registered societies. The price of the book is high specially because the author has only reproduced the Act along with amendments and there is not much by way of commentary.

DOCUMENTATION

Index India—A Quarterly Documentation List of Selected Articles, Editorials, Notes, Letters, etc., from Periodicals and Newspapers Published in English Language all over the World, Vol. I, No. 1 (January-March, 1967); Edited by N. N. Gidwani; Published by Rajasthan University Library, Jaipur; Annual subscription: for educational institutions Rs. 50 and others Rs. 100.

In a pioneering attempt in our country, the University of Rajasthan has come out with the first issue of its quarterly bibliographical service. Substantial labour has gone into the compiling of this publication which lists as many as 5,928 items, ranging from editorials, full-length articles, topical notes and even letters to editors, documented from no fewer than 375 English language newspapers and periodicals published all over the world. The publication should be of great value to research scholars, teachers and editorial writers.

CHAIRMAN'S SPEECH

INDIAN OIL CORPORATION LIMITED

Speech of the Chairman, Shri N. N. Kashyap I.C.S.

Following is the Speech delivered by Shri N. N. Kashyap, I.C.S., Chairman, Indian Oil Corporation Limited, at the Annual General Meeting held in Bombay on 30th September 1967.



SHRI N. N. KASHYAP, ICS.

Gentlemen,

I welcome you to the Eighth Annual General Meeting of the Corporation. Annual accounts and reports thereon are already in your hands, which I hope you have read.

The year 1966-67 has been eventful for your Corporation inasmuch as work in all the fields of activity of the Corporation continued to increase in a marked way. This has been achieved in spite of the trends of recession in certain sectors of the country's economy. We are hopeful that with the increase in economic growth, our performance will be even better in the years to come, now that the working of the Corporation has been established on sound commercial footing.

I have the privilege of addressing you for the second time but this year I derive added satisfaction from the fact that I am addressing you as shareholders of an oil company which has the largest business in the country. In the current year we have achieved and maintained this position; we are at present selling petroleum products at the rate of half a million kilolitres per month—about 35% of the total sales in the country.

Profitability of your Corporation has been improving year after year. Profit during the year 1966-67 before providing for depreciation and interest amounts to Rs 16.21 crores as against Rs 7.84 crores for the previous year. Profit before taxation amounts to Rs 6.26 crores during 1966-67 as against Rs 1.01 crores during the previous year. Our profitability would have been much larger but for the unavoidable losses totalling Rs 3.97 crores resulting from devaluation and under-recoveries of rail freight and Central Sales Tax which are the outcome of the pricing policy in respect of petroleum products distributed in the country.

It gives me great pleasure to let you know that your Corporation has for the year 1966-67 declared a dividend. This maiden dividend of 6% is a significant milestone in our development, inasmuch as it fulfils one of the basic objectives underlying the public sector enterprises, namely, of generating revenues for national use.

While we have successfully met the requirements of petroleum products in the country and have helped in avoiding shortages, avenues of export in products available after meeting the country's requirements have been explored to earn the much-needed foreign exchange. Petroleum products valuing Rs 34.52 lakhs were exported in the year 1966-67. Export of about half a million tonnes of petroleum products has been

negotiated and planned for the current year which will yield a foreign exchange earning of about Rs 7 crores.

You will be pleased to learn that the Haldia Refinery Project has been entrusted to your Corporation. Work has already commenced and every effort will be made to complete the work by the target date in spite of some of the serious handicaps resulting from bad soil conditions and poor means of transport.

Coming to performances during the last year, your refineries have, by and large, been running satisfactorily. Gauhati Refinery processed 7,42,946 tonnes of crude oil during the year as against the designed capacity of 7,50,000 tonnes. The refinery at Barauni processed during the year under report 11,13,885 tonnes of crude oil. With the off-take of heavy fuel by newly arranged customers, the refinery is expected to achieve the full rated capacity of 2 million tonnes/year before the end of the current year. Construction work in respect of the third million tonnes unit is expected to be completed by the middle of 1968. The refinery at Jawahar Nagar processed 14,11,702 tonnes of crude oil during the year under report. The refinery had to be operated below capacity because of the reduced off-take of heavy fuel by the Power House at Dhuvaran. I expect that the refinery will achieve the rated capacity of 2 million tonnes/year in a few months as soon as Dhuvaran is in a position to take more of the heavy fuel after its repairs. The third phase construction programme of the refinery is nearly complete and we can hope to start operating the third million tonne stage early in the next year when it is expected that the troubles in the Dhuvaran Power House would be over.

The refineries of your Corporation, as also the refinery at Cochin, are now meeting the entire requirements of the Marketing Division in respect of bulk refined products except in respect of Lubes, aviation gasolines and a portion of kerosene. High Speed Diesel Oil and Furnace Oil which till last year were deficit products and were imported, are now surplus and are being exported by your Corporation. The entire requirements of jet fuels of the Corporation are being met from our own production. Very soon, we hope, production of Bitumen and Lubricating Oils will materialise at Barauni Refinery, thereby adding another new chapter.

In the field of pipeline operations, the most significant development has been the commissioning of the Barauni-Kanpur section of the Haldia-Barauni-Kanpur pipeline. Till the end of August 1967, it transported 2,97,019 tonnes of petroleum products. With the commissioning of this line, distribution of petroleum products in the region has been facilitated substantially. Another achievement in this field has been the movement of Light Diesel Oil through the Gauhati-Siliguri pipeline. It is also planned to move Light Diesel Oil through the Barauni-

Kanpur section of the H-B-K pipeline and the technical aspects are under study.

The Marketing Division of your Corporation recorded further progress during the year in spite of the severe competitive conditions in the market. The turn-over increased from 3.79 million kilolitres of petroleum products during 1965-66 to 4.89 million kilolitres during 1966-67, thereby registering a rise of about 29%. Of the total petroleum products sold in the country, your Corporation's sales accounted for 32.5%.

Commensurate with the selling effort, the storage capacity of the Marketing Division also increased by about 30% from 4.93,700 kilolitres to 6,46,019 kilolitres. A new port installation at Port Blair and 4 new pipeline installations at Allahabad, Moghalsarai, Patna and Kanpur and 6 new bulk depots were commissioned during the year.

The development of retail outlets has been receiving the special attention of the Management. In spite of many odds, it has been able to add 491 retail outlets during the year. An even more ambitious programme of development is planned for the current year during which additional 550 retail outlets are expected to be commissioned.

Your Corporation is now catering to over 40% of the total aviation business in the country. From the time the Corporation entered into the aviation business, that is about 3 years ago, the development of facilities for refuelling has been more than what any other oil company operating in India had been able to achieve during the entire period of its operation in the aviation field. The Corporation is now operating 43 Bulk Petroleum Installations at different air-fields and has entered the field of refuelling aircraft of International Airlines also. Most stringent quality control standards have been prescribed for this specialised field of service.

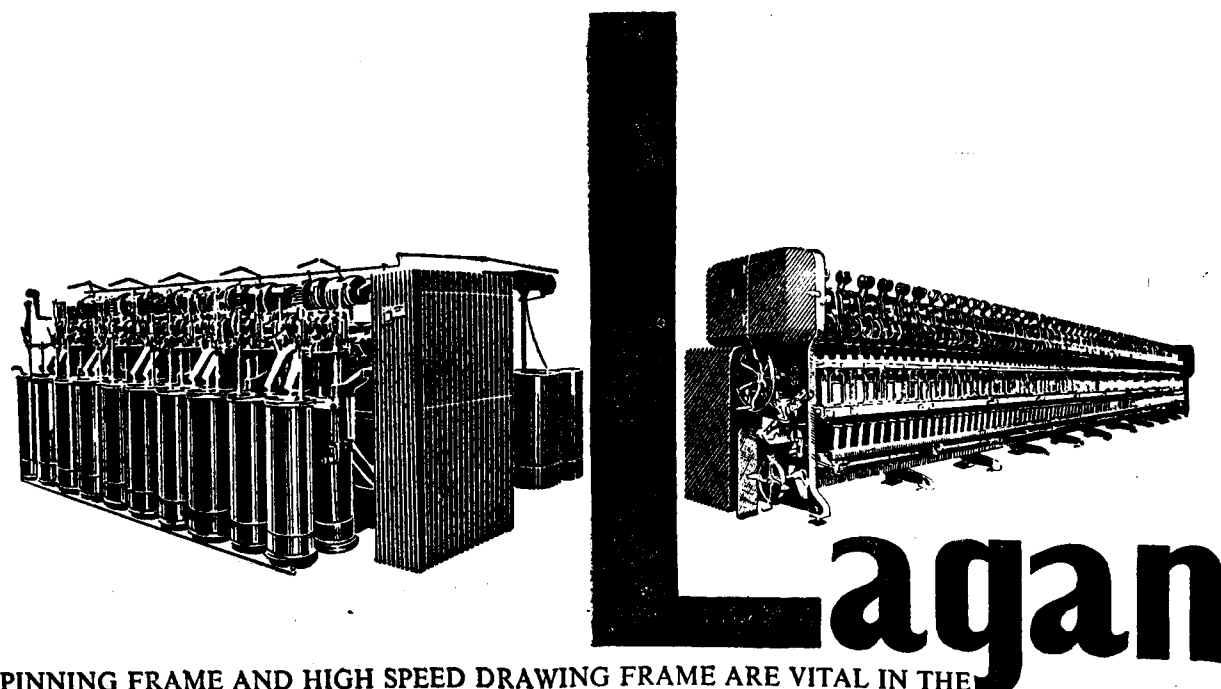
Shortage of cylinders has so far been a handicap in our efforts to reach more and more homes in towns through our domestic cooking gas 'INDANE'. Presently, INDANE is available in Calcutta, Patna, Jamshedpur, Ranchi, Allahabad, Varanasi, Lucknow and Delhi. With the availability of additional cylinders in large quantities in the months to come, your Corporation will be able to render service in a large number of towns and industrial areas.

Agreements have now been arrived at between the staff of all the three Divisions and the Corporation's Management in regard to the terms of their service. Relations between employees and employers have generally been satisfactory. Officers' grades have also been rationalised in all the three Divisions.

As I stated on this occasion last year, concentrated attention is now being focussed on efficiency, cost control etc. Internal audit has also been intensified and extended to all fields of activity of the Corporation. A rigorous check is maintained on consumers' outstandings. Increased emphasis is being laid on cost consciousness. Training is being imparted to the officers of the Corporation in methods and procedures which are conducive to efficiency and productivity. An efficiency Research Department is now in position. The results of all these concerted efforts will, I hope, be discernible in much larger measure in the future.

I am happy to record that I received full co-operation and help from the members of the Board and all officers and staff of the Corporation for which I am most grateful. Their unstinted participation in this national venture is a measure of their dedication and patriotism.

(NOTE: This does not purport to be the proceedings of the Annual General Meeting of the Company.)



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COMPANY MEETINGS

INDIA STEAMSHIP CO. LTD.

Address of the Chairman, Sir A. Ramaswami Mudaliar

The following speech was delivered by Sir A. Ramaswami Mudaliar, Chairman, India Steamship Company Limited, at the Annual General Meeting of the shareholders of the Company held on September 26, 1967, at their Registered Office at Calcutta.

Gentlemen,

The Audited Accounts and Directors' Report for the year ending March 1967, has been in your hands for some time and with your permission I shall take them as read.

The Directors' Report states that the freight earned during the year was Rs 9,89,66,000/- as against Rs 7,90,82,000/- in the previous year.

The total number of voyages was 46.5 of which 34.5 voyages were completed in the Liner Service and 12 voyages in the Coastal Service, as against 39 and 5 respectively in the previous year.

After providing Rs 94,31,000/- for Depreciation and meeting all other outgoing expenses, including a provision of Rs 5,28,757/- for Managing Agency's Commission, there remains a sum of Rs 72,93,000/-. As stated in the Directors' Report, a sum of Rs 54,00,000/- has been provided for Development Rebate; the balance Rs 18,93,889/- and a sum of Rs 47,00,000/- transferred from Development Rebate of the previous years which is now free, has been transferred to the General Reserve. This sum along with the balance credited from previous years stands at Rs 70,33,023/- and the Directors recommended that out of this amount a sum of Rs 1,62,500/- may be paid to the Preference Shareholders, being 5 per cent grossed up, and a 7 per cent dividend, subject to tax, may be distributed to the Ordinary Shareholders.

I may state that the Managing Agents have in the past rarely received their due commission and particularly during the last four years they voluntarily agreed to forego their due altogether.

The Managing Agents' Commission this year, as provided in the Balance Sheet will be paid as soon as the legal position in this matter is made clear.

PORT DELAYS:

A mention of port delays which has regrettably assumed the aspect of a "hardy annual" must unhappily be mentioned during the year under review in many—too many—of the ports served by your Company's vessels. It is a matter for concern and regret that in the current year these delays have been further increased as exemplified by the 30/35 days berthing delay recently experienced in Bombay. I would hasten to add Bombay and other Indian ports are not the only ports where delays are being encountered.

IMPORTANT EVENTS:

I shall now deal with some of the important events that occurred during the year under report, which will highlight the conditions under which the Company was obliged to work and obtain the results mentioned above, which I hope the shareholders will find fairly satisfactory in the circumstances.

DEVALUATION:

In June last year, hardly two months after the beginning of our financial year, the Government suddenly decided to devalue the Rupee. The devaluation fixed the rate at Rs 21/- per Pound

and Rs 7½ for the Dollar, from 6th June, 1966. It was a momentous decision to take and opinion was even then sharply divided on the necessity for such a decision. While accepting the decision loyally, the industries generally were disappointed at the sequence of events thereafter. Devaluation of the magnitude which Government found necessary, should have been taken after deep consideration and after examining the sequential steps that should be taken immediately after devaluation. It may be stated without offence that the decision to devalue was taken without adequate preliminary consideration of the fiscal measures that should follow such a momentous decision. The result was, to put it mildly, some amount of confusion, as to what individual departments of administration considered should be done. The export trade of the country which it was hoped would be considerably increased was the first to suffer for many months after devaluation. In fact, till recently the quantity and value of exports did not even reach the figure that existed before devaluation. On account of the devaluation and the value of the goods in Rupees being substantially higher in relation to the Pound or Dollar at the old rates, it is necessary to see that some flooring should be prescribed for the quantity of foreign exchange for which traditional items like Jute and Tea can be sold. The temptation of the Exporter to get more in Rupees though less in Sterling or Dollars is certainly there, but a balanced view has to be taken and a line has to be drawn below which the exporter should not sell his product abroad in terms of foreign exchange.

FALL IN FREIGHT:

I am referring to these consequences because they have a direct bearing on the amount of freight that international shipping can carry and therefore the amount of earnings of companies such as ours. In my last speech I referred to the restrictions on imports which were a considerable handicap to the freight earnings of shipping companies. For some months in the current year this handicap was intensified by the falling export trade of the country.

Owing to the virtual cessation or considerable reduction of the production of various industrial units in the Country, a liberalised programme of imports of essential raw materials, balancing plant and machinery and other necessary items was adopted. This programme which was made possible by the 900 million Dollar credit which the Country obtained, has been of some assistance in promoting the export trade of the Country. There were other factors also which affected Indian shipping, and I refer to these factors. There is a general impression that owing to devaluation, the earnings of Indian shipping companies have gone up phenomenally. It is true that the earnings of shipping companies have been better than in previous years, when there was such a sharp drop in carryings and earnings, that hardly any profit was made by most Indian shipping companies.

EROSION OF FOREIGN EXCHANGE EARNINGS:

The foreign exchange earned by Indian shipping companies has been eroded in more ways than one. Firstly there has been a curious administrative decision—an additional impost on foreign going vessels, in the payment of port and harbour dues of various kinds in the main Indian ports. It was decided by the Port Authorities that vessels in the overseas trade should

pay 57½ per cent more than the existing rate for all such dues. This decision affected Indian shipping more than British shipping and considerably offset the advantage of devaluation. Secondly, Indian companies had to pay a fair amount of the salary of officers and crew in foreign exchange, again depriving shipping companies of a part of the benefit of devaluation. Likewise, a considerable amount of foreign exchange had to be paid out to meet dues abroad, such as stevedoring, port and harbour dues, necessary ship repairs abroad and various other kinds of expenditure involved in overseas trade. The position was to some extent redeemed by an increase in the freight rates both Eastbound and Westbound by 7½ per cent, decided upon by the Liner Conference of India/UK/Continent. The satisfactory results that have been obtained in these circumstances, is not a little the result of careful husbanding of resources and a tight control of expenditure by the management.

SHIPPERS COUNCIL:

During the current year a Shippers Council has been established—a body consisting of the representatives of Shippers of all commodities, under the Chairmanship of the President of the FICCI. This is a progressive step long advocated by shipping companies as it replaces individual groups of shippers of particular commodities which existed hitherto. The continuance of such individual groups in particular cases may still continue. It is hoped that the Shippers Council will take a broad view of the position of shipping companies and of Shippers of different commodities who are likely to concentrate all attention on their individual cases without due consideration of the overall position, or fully realising the problems of shipping companies which are an integral part of the industrial and economic structure of the Country.

CANAL CLOSURE—FURTHER FALL IN FREIGHT:

As the Directors' Report states, there is a further fall in the overseas trade of the Country, not merely on economic grounds but also on the existing international position and here let me say a word about the Suez Canal Surcharge, which unfortunately has once more to be imposed by the Conference, in the trade in which your Company is most concerned. Indian companies are specially affected by the closure of the Canal. They have longer routes to take along with other companies to destinations in the UK and North Continent. They have even more handicaps of distance and time in their trade with the Black Sea Ports of Russia, Rumania, Bulgaria and other South East European Countries. There is a further fact that we cannot take bunker supplies in South Africa and have to go to Ports in West Africa, involving taking larger quantities of bunkers to last the journey of longer distances and decreasing the paying cargo which one can take on board. I trust that the West Asian crisis will soon be resolved and that normal traffic routes will be open. On the last occasion when such a crisis arose, Indian ships were the first to go through the Canal and to ask a reduction and ultimate abolition of the surcharge. The strain on scheduling of ships to cater to the traffic at various parts consequent on this closure is a great disadvantage and handicaps. The surcharge offsets in part the additional expenses and losses which the longer route inevitably entails and therefore we should be glad to see the surcharge abolished as soon as possible by the opening of the Suez Canal.

NEW SHIPS:

The Directors' Report mentions the sale of a ship the "Indian Endeavour" and the reason why it was sold. It is our hope and endeavour that new ships will be ordered to supplement and eventually replace some of the ageing ships. Your Directors are making every endeavour to finalise the proposals for building new ships.

THANKS:

We have a new Minister of Transport who has considerable knowledge of economic problems, and as a member of the Planning Commission has had experience of administrative and financial problems. He has set the target high for Indian

shipping and hopes to achieve five million tons of Indian shipping by the end of the Fifth Five Year Plan. I cordially echo his hope and trust that the progress to be made jointly by the Private and Public Sectors in shipping will result in this target being realised and that the enlarged fleet would be profitably employed.

The Secretary of the Ministry of Transport and the Joint Secretary and Director-General of Shipping, with whom we are more closely in touch, in our day to day administration, have given all help and rendered all advice in resolving various problems that arise from time to time in the shipping world.

The Additional Director-General of Shipping in Bombay and the Assistant Director-General have been extremely helpful and have given valuable guidance. Their understanding of the problems of shipping and the handicaps of Indian shipping in the international trade have been most encouraging and we owe them thanks.

The management of the affairs of the Company on the technical side, both operational and marine and engineering, has been highly efficient and it is with pleasure that I bear special testimony, to the loyalty of the management. We are thankful to the staff both afloat and ashore for the care with which they have looked after the affairs of the company during the year, and to them I should like to express our thanks. I would like to thank all the officers and staff of the company in India and overseas for their interest in the progress of the company and for their diligence in the carrying out of their duties. Our thanks are also due to our Agents both in India and abroad for the care with which they have attended to our ships' requirements, both in freight and otherwise. Thanks are also due to the Shippers both in India and overseas who have extended their continued and firm support to us.

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

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HINDUSTAN INSECTICIDES LTD.

Speech of Shri K. P. Madhavan Nair, Chairman, Hindustan Insecticides Ltd., at the Thirteenth Annual General Meeting of the Shareholders of the Company held on 29th September, 1967, at New Delhi.

Gentlemen,

I welcome you most cordially to the Thirteenth Annual General Meeting of the Company. I take it that you have read the Directors' Report, Balance Sheet and Profit and Loss Accounts of the Company for 1966-67 sent earlier to you. You would have noticed from the annual accounts and Directors' Report that in production, product diversification and profitability, your Company has reached new heights. The Company has been making profits ever since it started operations on a commercial basis; but in the current accounting year, the profit was Rs 47.42 lakhs before taxation for a total share capital of Rs 125.47 lakhs. It may incidentally also be mentioned that during the year 1966-67 the sale price to private trade in terms of technical DDT of your Company's product was comparable to c.i.f. price of imported DDT without including import duty; and the sale price of DDT of the Company to the Union Health Ministry of Malaria Eradication Programme was appreciably lower than the c.i.f. price of imported DDT. The Company's reserve surplus now stands at Rs 140.36 lakhs. This figure reflects a sound financial position. Besides, it has also enabled the Company to finance the existing expansion programme viz., two new projects in full out of its own resources. This incidentally accords with the national policy of raising internal resources at the corporate level for expansion purposes as far as possible.

The country's economy under the impact of planning has made rapid strides. The total investment made in both the sectors during the past 15 years aggregated to Rs 21,000 crores. Investment as a proportion of national income in our country during 1950-65 went up from 5% per annum to 15% per annum. While national income during this period went up by 70%, the per capita income rose only by 28%. The population explosion came in the way of further improvement of per capita income. The activated price spiral has defied solution so far and is continuing to menace industrial relations.

As I speak to you and survey the economic landscape, I find we have left behind many milestones in our onward march towards the goal of socialism. The country's industrial base has been widened and deepened with the setting up of machine building industries which turn out plants for manufacture of sugar, cement and textiles, besides agricultural machinery. Malaria, the curse of tropical countries like India, has almost been eradicated. The Malaria Institute under the Health Ministry waged this war on malaria and your Company provided the sinews of this war in the shape of DDT supplies from its Delhi and Alwaye plants. This is a source of genuine satisfaction to all of us in the company. The Company has also entered a few years ago in the field of pest control in agriculture; and during 1966-67 approximately 25% of the production of the Company was sold to formulators for making formulations of pesticides for agriculture.

The present dismal economic situation in the country is primarily due to the short fall in farm production. Food grains production after touching the peak figure of 89 million tons in 1964-65 disastrously slumped to 76 million tons in 1966-67. In this context, at present, the pride of place has rightly been accorded to agriculture in the scheme of priorities. In order to haul the country over the hump, an integrated approach to

agricultural development has been planned and is being vigorously implemented. The key elements in this new strategy are (1) the stepping up of investment in agriculture, (2) emphasis on minor irrigation schemes (3) emphasis on the use of new varieties of seeds, and (4) the provision of fertilisers, insecticides and pesticides on a liberal scale.

I am sure that with a better technology in agriculture we can have a favourable input-output ratio. Further, the large physical availability of key inputs—fertilisers and insecticides and a more efficient administration and organization should go a long way in revolutionising Indian agriculture and restoring "health" to the Indian economy. Your Company has to play a vital role in these developments.

Your Company since inception has been making remarkable progress. Both the factories of the company at Delhi and Alwaye created all time production records during 1966-67 in the manufacture of the primary product viz., technical D.D.T. The Delhi factory turned out 1,556 tons of technical D.D.T. and the Alwaye unit produced 1,536 tons of the same product. The sales turnover of Rs. 186.86 lacs was also a record for any financial year. These figures become all the more interesting and impressive when we realise that the rated capacity of both these plants is only 1,344 tons per year.

Your Company would necessarily have to play an effective role in meeting the mounting requirements of insecticides for malaria eradication programme and pesticides for agriculture. Simultaneously it would also be desirable for the Company to propagate measures for popularising the use of pesticides in agriculture. At present, the Company is installing two more pesticides plants, one at Delhi along side the existing factory to manufacture 1400 tonnes of technical DDT per annum; and the other for the manufacture of 3000 tonnes per annum of BHC containing 13 to 16% gamma isomer at Alwaye adjoining the existing factory of the Company. These two plants are likely to go in commercial production towards the end of 1968. The Company also submitted feasibility reports to the Govt. for a 4000 tonnes DDT plant based on the conventional process of utilising alcohol as one of the principal raw materials, and the second feasibility report for 500 tonnes lindane project. In June, 1967, the Minister of Petroleum & Chemicals convened a meeting to discuss these proposals. It was agreed in this meeting that your Company should draw up a feasibility report for 5000 to 6000 tonnes (annual production capacity) DDT plant based on acetaldehyde instead of alcohol and 2000 tons fortified BHC plant (approximately 45% gamma isomer) in place of lindane project. It is felt that, for the present demand of lindane an agricultural pesticide was not picking up, but fortified BHC was a suitable alternative. In view of acute short supplies of alcohol, and also for reasons of advantages in the manufacturing process, it is felt that a DDT plant based on acetaldehyde could be better than one based on alcohol as one of the main raw materials. The Company is preparing these two feasibility reports and is likely to submit these to the Government in the next two months. It is hoped that the Government might finally authorise the Company to set up these two plants during the next few years.

Your Company is also formulating proposals for undertaking various formulations of DDT, as also of BHC for use in agricultural pest control. With these diversifications, the ope-

rations of your Company will be more and more oriented in the future towards pest control in agriculture.

Consultations have been started with the two large fertilizer manufacturing companies in the public sector to develop a scheme for marketing of pesticides and fertilizers from the same bulk depots in the various regions in the country. The advantages of marketing important agricultural inputs from the same depots are patent and it is hoped to finalise these arrangements in the next few months. At the same time, a beginning will be made for propagation of use of pesticides to be made by the Company.

Your Company has introduced a comprehensive and scientific Production Incentive Scheme at both of its factories with effect from 1.4.66. The Scheme is based on the production results every month, and incentive payments are made on the basis of production after approximately 108% production as against the rated capacity of the plants has been achieved. The main features of the Scheme are that it covers every

employee and officer of the Company excepting the Managing Director; and that incentive payments are related to production, raw materials efficiency and inventory turnover ratio factors. The introduction of the Schemes has contributed to the production results materially during 1966-67 when as mentioned earlier all-time production records were set up at both the Factories of the Company.

Before I conclude, let me congratulate all the employees and officers of the Company and particularly the Managing Director, Shri M. Fazal, for the splendid results achieved during 1966-67. The harmonious and cordial labour-management relations at Delhi and Alwaye are a tribute to the sound personnel management at all levels, and the spirit of dedication of the two unions at both the factories of the company for healthy trade union organisation responsive to the needs of productivity and proper organisation of work.

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

POYSHA INDUSTRIAL COMPANY LIMITED

Review by the Chairman, Shri M. R. Ruia

Following is a summary of the speech delivered by Shri M. R. Ruia, Chairman, at the Tenth Annual General Meeting of the company held in Bombay on 29th September, 1967.

2. As indicated in the Directors' Report our new factories at Thana, Ghaziabad, Cochin and our subsidiary at Anand show considerable progress, despite the usual starting-up problems which normally accompany the switch-over from single-plant to multi-plant operation.

3. The total sales for the year dropped from Rs. 216 lakhs to Rs. 206 lakhs mainly due to less than normal supply of tinplate, particularly for general line containers. Apart from the increasing labour costs, heavy interest charges and other expenses inevitable in a period of rapid expansion also had their impact on profits.

4. With the increased supply of tinplate and other raw materials, production has started improving. Total sales for the current year are expected to be between Rs. 3 and Rs. 3.5 crores.

5. We continue to play a leading role in the manufacture of open top cans for the processed food industry. We were the first to introduce the 5½ oz. juice cans and the use of electrolytic tinplate for the processed food industry. In consonance with our policy of introducing the most convenient sizes of containers based on international standards, we are in the process of introducing other international sizes of cans which will be economical in use and help canners increase their exports.

6. The continually increasing cost of tinplate is a matter of great concern to all tin container manufacturers. The ex-mill price of indigenous tinplate has shot up three times from Rs. 860 per tonne in 1951/52 to Rs. 2,230, which is double the international price. This is reflected in the cost of containers supplied to the canning industry, despite our policy of absorbing prices as much as possible. Thus the tin container is faced with the threat of being priced out of competition, although it is still and will for decades continue to be the most suitable form of container for Indian conditions.

7. We have made repeated appeals to the Government to

reduce both the cost of indigenous tinplate and the duty on imported tinplate. We are also attempting to reduce costs through advanced techniques, higher production and more modern machines. We have, further tried to persuade the Government to take up the production of double cold reduced tinplate, a thin but extremely tough material, commonly known as 2 CR, in the public sector units. In view of the high cost of imported tin ingots, tangible savings could be effected by manufacturing tin-free plates. This is a serious matter which calls for the urgent attention of the Government. For sheer survival, we must fall in line with other countries by making necessary changes in manufacturing techniques, in time.

8. The argument that the tin container industry should be taken out of the banned list and included amongst those engineering industries to which the licensing procedure does not apply, seems to ignore completely the sizeable expansion in the manufacturing capacity of our own company in the last two years. There is, besides, a large reserve capacity now lying unused, which can be readily tapped by working additional shifts. As for the main raw material, tinplate, it is advisable to watch how much additional tinplate is actually made available to the industry by Rourkela.

9. Most of the machinery we ordered from abroad has been received and installed; the balance is expected soon. Adequate raw materials are now becoming available. In our new units we have the most modern equipment equal to the best in Asia.

Our prime endeavour will be to reduce the cost of the tin container so as to maintain and widen the market for it. We shall then diversify into wider packaging spheres, especially in plastic and paper; we are already at the planning stage in this respect.

10. The staff and workers were as usual fully co-operative and for this we are thankful to them. If there is no serious disturbance in our economy, the current year should yield better results than the year under review.

N.B. : This does not purport to be a record of the proceedings of the meeting.

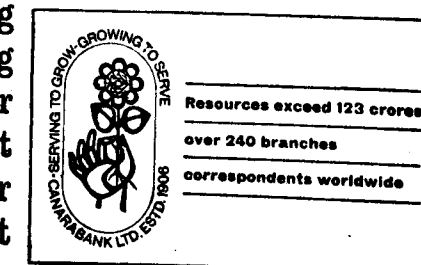
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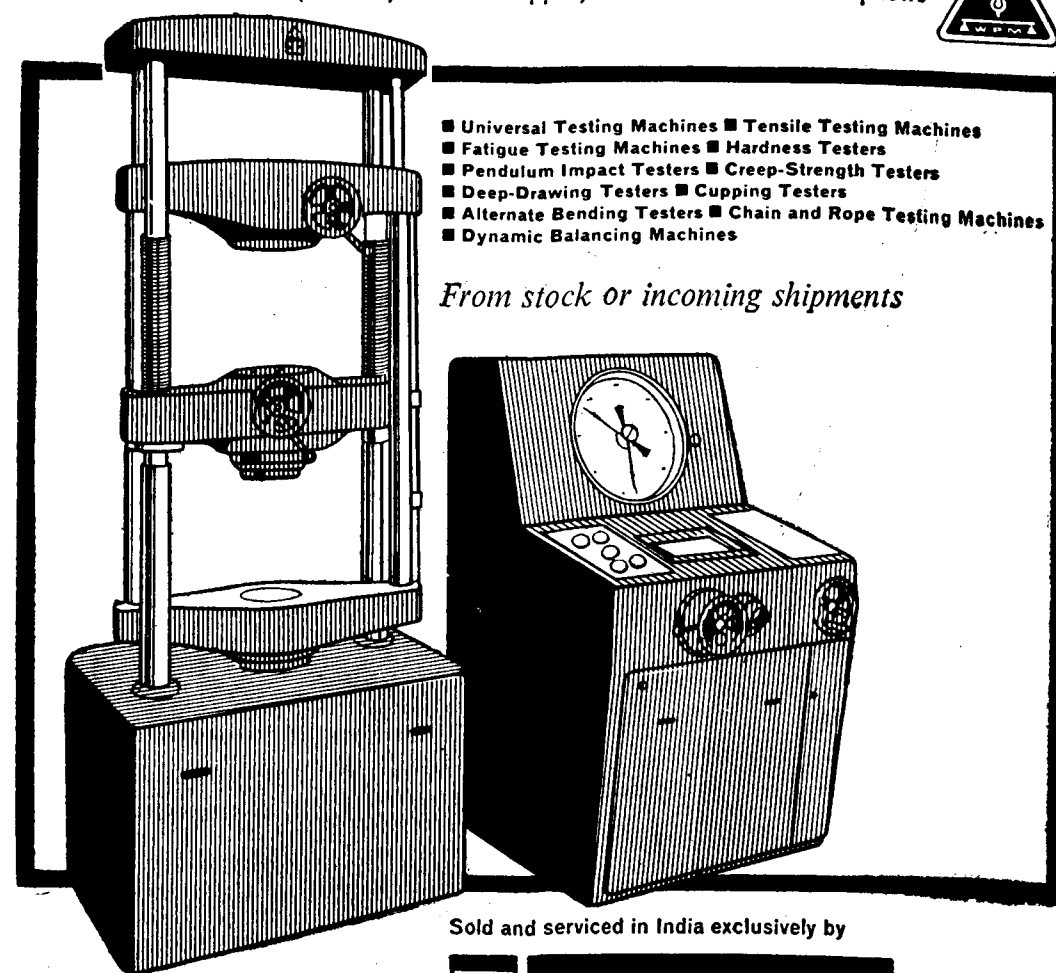


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THE INDIA CEMENTS LIMITED

Mr. P. Suryanarayana Reviews Activities

Addressing The Twenty First Annual General Meeting of the Company held at Madras on 28th September, 1967, Mr P. Suryanarayana said:

Friends,

On behalf of the Board of Directors and on my own behalf I extend a hearty welcome to all of you to the 21st Annual General Meeting of your Company.

2. The last one year has been a period of great strain and anxiety to the country both in the economic and political sphere, what with the very severe drought in Bihar with the attendant famine and untold misery and suffering to countless human lives; Acute food shortage in many other parts of the country, especially, in Bengal and Kerala: Spiralling prices of all commodities with no apparent prospect of its control; and to top it all a general recessionary trend felt all over the country both by industry and trade. The recent unprovoked intrusion by the Chinese once again on our Northern frontiers looks like history repeating itself, and coming in the wake of our present difficulties certainly adds to the magnitude of the problems, facing the country. But let us hope that as in the past the country as a whole will rise to the occasion and face the challenge which though formidable is not incapable of solution.

3. The Annual Accounts, the Directors' Report and the Auditors' Report have been with you for some time. With your permission, I shall take them as read.

4. The scheme of decontrol was extended by Government for a further period of one year during 1967 and the production and distribution pattern has been kept up as in the past and in accordance with the assurance given by the Industry at the time of decontrol in 1966. As I mentioned to you on the last occasion when we met, the Industry had agreed with the Government to restrict dividends payable to shareholders at the then current levels and review the matter after one year, in consultation with them. The Government was therefore approached by your Company for relaxation of the freeze on dividends and to permit the Company to declare a dividend of 12 per cent on the Equity shares for the year ending 31st March, 1967. It was emphasized that the current year's working not only permitted the payment of a dividend of at least 12 per cent, but that in the present state of the capital market, this would be the normal and a fair return, to the shareholder. However, in spite of our very strong representations, the Government have felt that in the prevailing conditions, it would not be advisable to increase the dividends. In the circumstances, we will have no alternative but to restrict the rate of dividend on the Equity shares to 9 per cent for the current year. I hope the position will be again reviewed by Government and we will be allowed to increase the equity dividend at least for the next year.

Some shareholders have suggested that in view of this restriction on dividends the Company should issue Bonus shares. As a matter of fact, we ourselves have been considering this question and propose to take necessary steps. It is however understood that as at present the Government are of the view that the restriction on dividends would equally extend to the issue of bonus shares. I may assure you that we shall spare no efforts to protect the shareholders' interest and secure for them the best advantage for their investment in this Company's shares.

Due to factors beyond the control of the industry, there has been a progressive rise in the cost of production during the last two years, many of these increases largely brought about by Governmental action. There has been periodical increases in the pits-mouth price of coal, substantial increase in the railway freight, surcharge on railway freight, labour charges on account of increase in the variable dearness allowance which as you know is linked with the cost of living index, imposition

of electricity duty on power consumption and increase in amount of interest on borrowings on account of devaluation and the increase in the bank rate.

The Cement Manufacturers Association had made representations to the Government for sanction of suitable increase in the price of cement to compensate the increased cost of production, on account of the aforesaid reasons, but their claim has not received the approval of the Government. Our anxiety is that if this trend of increasing costs should continue without adequate compensation by way of price increase, the profitability will continue to be seriously affected which in the long run will result in a serious set back in the expansion programme undertaken by the Cement Industry.

The Company's working and financial results for the year under review have been satisfactory. This has been largely due to our maintaining full production at both the factories. The production was 100% of rated capacity at the Sankarnagar Factory while it was 108% at the Sankaridrug Factory. The total production of cement by your Company during the year was 9,47,117 tonnes.

As regards the working of the Company during the current year, as already indicated in the Directors' Report, the Company has to incur an additional expenditure of about Rs. 40 lakhs due to usage of oil in the second unit at Sankaridrug. In addition to this, due to increase in cost of production brought about by Governmental action, the profit will be considerably affected if the Government do not sanction a suitable price increase.

The One million tonnes expansion scheme undertaken by your Company is progressing smoothly and is expected to be completed between 1971 and 1972. The Industrial Development Bank of India, The Life Insurance Corporation of India, The Industrial Finance Corporation of India and the Industrial Credit & Investment Corporation of India Ltd., have agreed in the first instance to extend financial assistance for the project to the extent of Rs. 5 crores, out of which a sum of Rs. 2.75 crores has already been availed of by the Company. The necessary loan documents and other formalities have been completed and it is expected that the rate of progress on the expansion will now be intensified.

The Managing Agents of your Company were re-appointed at the last General Meeting for a further period of 3 years from 1.4.1967. The Government of India have approved the continuation of their office up to 31.12.1969, only.

The Educational Institutions of your Company have recorded yet another satisfactory year of working. In order to cater to the educational needs of the employees' children of the new factory at Sankaridrug, we have commenced a Bala Vidyalaya as well as a Middle School at the Sankari Factory. I have no doubt that these institutions will go a long way to fulfil the needs of not only the employees of the Company, but also to many other residents in that locality.

The relations with labour at the factories and the Staff at the Head Office continue to be cordial as usual. On behalf of the Management and on behalf of all of you I take this opportunity to accord our thanks to all the employees of the Company for their unstinted co-operation and hard work during the year. The Company looks forward to their continued services and co-operation in the coming years.

I thank you for giving me a patient hearing.

JAI HIND

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

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- * Concessional rent of 50 paise per sq. metre per year on fully developed plots allotted on 30 years lease;
- * Ready-built sheds for small entrepreneurs on yearly rent;
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- * Exports have already started and construction of factories is going on.

For further particulars contact:

The Administrator,
Kandla Free Trade Zone,
P. O. Kandla Free Trade Zone,
Gandhidham (Gujarat).

davp 67/244

THE ALUMINIUM INDUSTRIES LIMITED
KUNDARA

Chairman's Speech

The following is the text of the speech delivered by Mr S. Narayanaswamy, Chairman, at the Twenty-first Annual General Meeting of the Company held at the Registered Office, No. 1, Ceramic Factory Road, Kundara, on Friday, the 29th September, 1967 :

I have pleasure in extending to you all a most cordial welcome on the occasion of the Twenty-first Annual General Meeting of the Company. The Annual Report and Accounts for the year ended 31st March 1967, have been already circulated to you. I request your permission to take them as read.

We have gone through a year of considerable difficulty, both operational and financial, and the reasons have been set forth in the Report already in your hands. There was acute shortage of primary aluminium metal during the year and this was perhaps the single biggest factor that reduced output of bare conductors during the year. The overall production was lower by 20 per cent. Rupee devaluation contributed in diverse ways to our difficulties through escalating import prices, shifts in Import Duties and countervailing Excise Duties. All these distorted our price pattern. The effect of these changes has been to delay our submitting invoices incorporating price variations and getting payments from Electricity Boards, imposing unprecedented burdens on the Company's ways and means. The liberalized issue of import licences following devaluation enabled us to place orders for metal abroad in September 1966 and actual supplies reached India in May 1967, so that the full brunt of material shortage was borne by the Company during the year under review. I am happy to state that our raw material position is presently quite comfortable with copious indigenous supplies, supplementing our imports. The accelerated pace of production in the first five months of the current year has enabled us to make faster deliveries and improve turnover.

There has been a 35 per cent increase in the import duty on aluminium rods over that which is payable on ingots. Our Company is happily placed in that our three Properzi units at Kundara and Hirakud, all of which are working at a satisfactory pitch of efficiency, give us practically all the rod we need by conversion of ingots, thereby facilitating avoidance of higher-costing rod import. This has helped us to stabilize our end-product prices.

The recent commissioning of the further Hydel units of the Sabarigiri Project in Kerala is expected to free the Company from seasonal power-cuts or interruptions in supply in the current and coming years, which is all to the good.

EXPANSION & DIVERSIFICATION

The Company's expansion and diversification programmes reached an important milestone during the year and in the months subsequent to the closure of the year. Expansion of capacity in bare conductors has been achieved and the new

machines installed should make for higher-strand production at greater speed. This should enable the Company to quote for substantially earlier deliveries. The cable-making machinery project made considerable headway with the completion of civil works and procurement of indigenous machinery. The foreign component of plant and machinery manufactured by our Japanese Collaborators is ready for shipment and is expected to arrive in India towards the end of this calendar year. The unit is expected to be commissioned by the third quarter of 1968. The Company's engineers are receiving training in the Collaborator's factory in Japan. The High Voltage Switchgear Project to be established at Mannar has made fair progress. The technical and collaboration agreements with Messrs Delle-Alsthom of France are being finalised. Government have already issued us the required Industry Licence. The recent issue of Preference Capital is, in part, intended to finance this Switchgear Project. The French Collaborators have asked to participate in the Company's Capital to the extent of about Rs 27 lakhs and the Government of India have given their consent to this participation as part of the collaboration terms.

The completion of the two new Projects would secure a healthy diversification in the activities of the Company. Your Directors consider that your Company, which pioneered manufacture of aluminium cables in India some 20 years ago with such success, should implement diversification programmes which would enable it to face competition in its primary fields with greater strength. They, therefore, look forward with confidence to enlarged operations in future years.

HIGHER OPERATING COSTS

The year's profits, after providing for depreciation, amounted to Rs. 57.96 lakhs, which means a decline of just under Rs. 14 lakhs. This contraction in earnings is the result of our sales going down by Rs. 54 lakhs, which again, was due to lower production during the year. Operating expenses have been going higher. Interest and bank charges continue to swell our bill-of-costs and during the year, there were Rs. 8 lakhs more than in the year preceding. To those who feel we make frequent Capital Issues, we would like to point out that the scale of our operations is such that despite the increase in owned funds, our interest charges for the year have gone to Rs. 41.82 lakhs last year. Railway wagon allotments have been unsatisfactory and during the year unpredictable, with urgent food-grain movements resulting in wagon cancellations. Inadequacy of wagon supplies has delayed despatches of manufactured goods, sometimes for months and involved the Company in heavy interest charges apart from ways and means difficulties.

The decline in profits is the cumulative result of inadequate

raw material supplies, electricity-cuts, higher operating costs and mounting interest charges—and this has compelled your Board to cut the dividend to 12 per cent for the year. Your Board had to pass over the interim dividend because our profit picture was not quite clear at the time we usually declare the interim dividend, because the bills submitted to Electricity Boards had to incorporate escalations of diverse descriptions following devaluation and our final profit figure depended on the acceptance of these bills by the Board, which being the subject of negotiation, proved a time-consuming matter. I thought we owed it to the Shareholders to tell them of the abnormal situation created by both devaluation and metal shortage during the year, that compelled us to pass over the interim dividend and to reduce the dividend for the year. The position has shown improvement in the new year. The enlarged bare conductor capacity alongside of a comfortable raw material position, should enable the Company to improve its performance in the current year.

Our sales of insulated cables have shown improvement over the previous year. However, there has been a marked tendency among some manufacturers to engage in distress sales. This is perhaps inevitable when large quantities of finished goods accumulate and banks express their dislike of inventories by curtailment of credit. Sales intended merely to contract inventories can only demoralise the retail trade and consuming market. It is hoped that early efforts will be made to arrive at satisfactory arrangements among major manufacturers to avoid uneconomic marketing of insulated cables.

ECONOMIC SITUATION

I am bound to point out that, in the absence of a Fourth Plan, which will spell out new electricity generation and distribution projects and allocation of funds therefor to Electricity Boards, the outlook for manufacturers of bare conductors must remain obscure. It was hoped that, in the wake of General Elections, we should have the Central Government going ahead formulating the Fourth Plan and allocations thereunder. However, the economic setbacks that came in the wake of devaluation and the countrywide drought in agriculture, had a major unsettling effect on the economy and a new Planning Commission under Mr D. R. Gadgil's Vice-Chairmanship has been constituted. We are told that the Commission will be formulating proposals only after stabler conditions are established. The present recession is, in part, ascribable to non-repetition of Government orders in Engineering and Electrical Companies—with Railways, the D.G.S & D, and the Electricity Boards having no funds with which to plan their outlay programmes. It is hoped that the Planning Commission will make an early diagnosis of the nature of the malaise and make ad hoc one-year recommendations of development programmes that will fall within the limits of foreign exchange availability and enable the various economic wings to Government to reactivate the industrial units in the country.

The general economic situation in the country is far from heartening. Indiscipline, labour unrest, and outbursts of violence with occasional arson thrown in, constitute the goings on in several parts of India. It is sad to contemplate that these should come in at a time of industrial distress—with several industrial units laying off or reporting closure. The State Governments have, in some cases, hesitated to take action against those who instigated violence or breach of the peace. The observations of Sir Biren Mookerjee, at the Annual Meeting of the Indian Iron and Steel Company, Ltd., held on the 8th September should set those in authority thinking hard. To-day, the Joint Stock Company is called upon to pay between 55 and 60 per cent of its revenues to Central Government as Corporation Tax, while State Governments have onerous earnings through Sales Tax levies—which are distinct from Excise and other Revenues, to which Industrial Companies contribute. The stake of Governments in the safety and well-being of industrial units is, therefore, larger than that of the Shareholder, who is

now firmly persuaded that he is a residual beneficiary in the gainfulness of Companies' operations. The least that Governments can do in exchange for the revenues they garner is to offer full protection against riotous assaults on the apparatus of production. This is the only way of Government ensuring that the development process, which is already running an obstacle race, does not grind to a halt. The idea that Police should be instructed to intervene after some material damage is done can be expensive when several items of plant and machinery are virtually irreplaceable in the present phase of foreign exchange scarcity or can be replaced only at two or three times the original cost. Most Managing Groups do not command nor can they mobilise the resources needed for replacement of such plant and machinery. It is up to Government to appreciate the disastrous consequences implicit in any policy of locking the stable door after the steed is stolen. The very industrial workers, in whose welfare Government are interested, will be the lasting victims of any major act of mechanical damage, because a non-operating plant cannot produce wealth for the country nor wages for workers, but will have to be closed down. It is time both Central and State Governments took a policy decision to afford abundant protection against destruction or sabotage of industrial units that have substituted imports, have created employment, built up and produced goods for people to consume.

Obviously, we cannot, on the one hand, have Five-Year Plans spelling out development programmes which involve our importing sophisticated plant and machinery from abroad and a lot of domestic organisation; and on the other, take for granted all industrial achievements without taking adequate measures to have them fully protected from unthinking mob fury. Let us hope all Governments will bestow their fullest attention on this important matter before embarking on further development programmes which can only enlarge the area of vulnerability in the coming years.

Your Company's relations with labour have been excellent. Some of the subsisting agreements with the Labour Unions have expired. Talks have been initiated for the purpose of entering into a fresh Five-Year Agreement, which should ensure maintenance of the high rate of progress and uninterrupted operations in the coming years.

I wish to convey your grateful thanks to the Industrial Credit and Investment Corporation of India Ltd., for their assistance and to the Bank of Baroda Ltd., who have been kind enough to sanction us a Medium-Term Rupee Loan. I wish to convey our grateful thanks to all our Bankers for the assistance afforded to us during the year.

I also wish to convey the thanks of the Board to all ranks of employees and staff, the Supervisory Personnel, Mr N. Satyanathan, Secretary, and to Mr. S. Peer Mohammed, the General Manager, for the excellent work put in by them during a truly difficult year. I wish to convey to Seshasayee Brothers (Travancore) Private Ltd., the Managing Agents, and in particular to Mr B. V. D. Menon, our appreciation of the manner in which the affairs of the Company have been piloted during the year.

I thank you for your forbearance.

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

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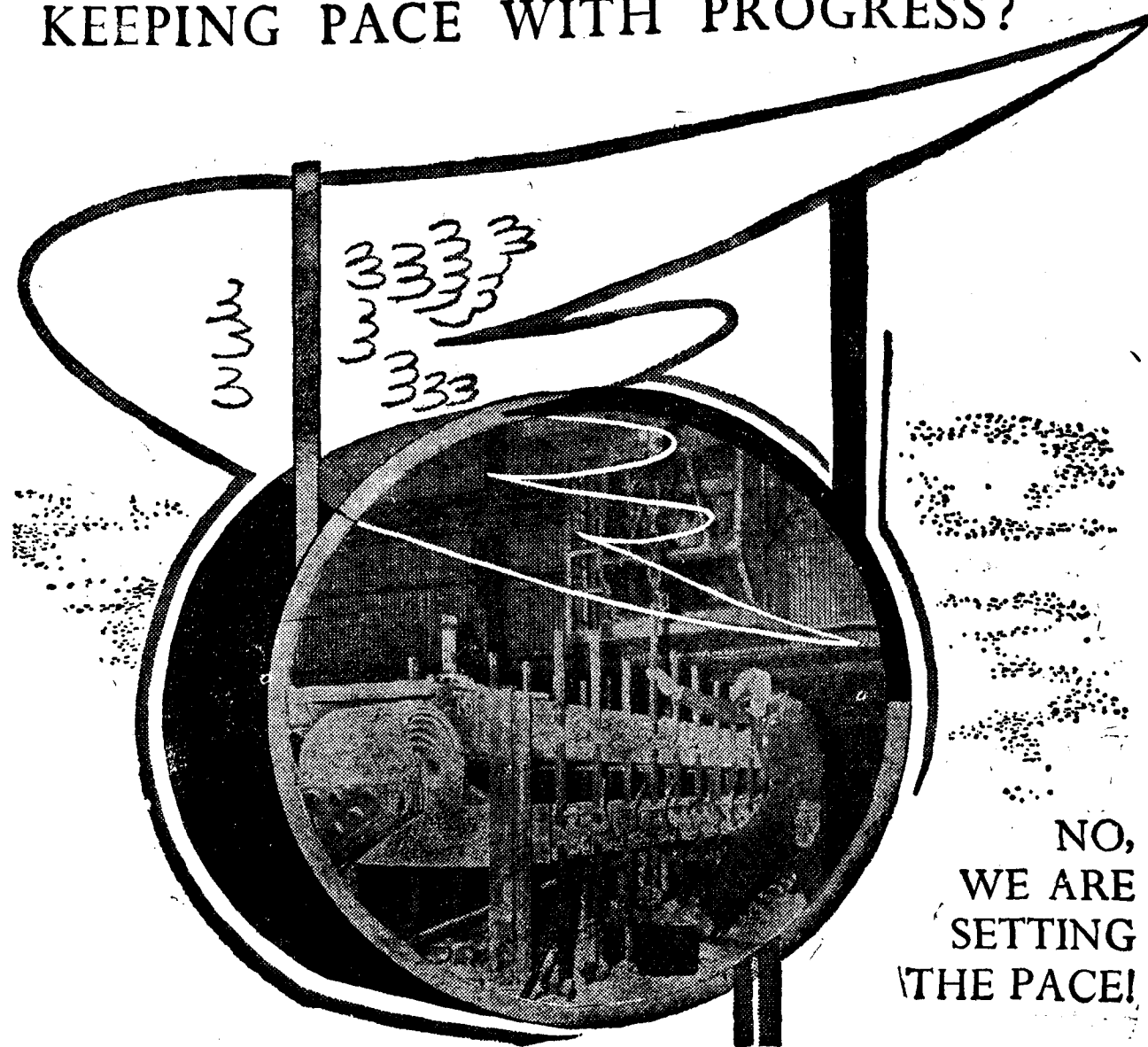
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KEEPING PACE WITH PROGRESS?



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.



HINDUSTAN ALUMINIUM CORPORATION LTD.

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THE JAY ENGINEERING WORKS LTD-CALCUTTA

Chairman, Lala Charat Ram's Statement



Lala Charat Ram

Friends.

I have great pleasure in welcoming you to the 30th annual general meeting of the company.

DIFFICULT ECONOMIC PROBLEMS

We are meeting in the shadow of an economic situation on the agricultural and industrial front, which could well be termed disastrous. The failure of two successive monsoons has brought untold hardship to millions of people in various parts of the country. Continued shortfalls in agricultural production have generated inflationary forces. This has seriously affected the demand for industrial products, which in turn has adversely affected industrial production and employment. The steep rise in agricultural prices has drained off the spendable surpluses with consumers, leading to a situation of a deep recession in demand. Durable consumer goods industries have suffered greatly inasmuch as this is a product group, the purchases of which are first to be postponed when spendable surpluses go down after meeting the primary requirements of food, housing and education. Your company has had its share of the effects of decline in demand and recession. Economic recession had led to redundancy, lay-offs, short working, and even retrenchment, as it is not possible for any company to be able to carry on the load of idle labour for indefinite periods.

INDUSTRY AND WEST BENGAL

It is obvious that the solution to this national economic problem lies only in every national working for maintaining agricultural and industrial production at optimum levels; and yet this is exactly what is not being done. The effects of the economic situation have been bad enough, but the political pattern that has emerged after the last general elections, has aggravated the situation, specially in West Bengal, which is the state in which our manufacturing operations are located. My reference here is not to the political complexion of the government, but to the fact that there seems to be a planned attempt to demolish the very concepts on which any stable society exists. All this has political and social implications, but our concern at the present time is rather with the repercussions of these developments on the day to day operations of productive enterprise. Today orderliness is a discredited virtue, and discipline is at a discount. Slow-downs and even stoppages of production, disobedience and indiscipline in the plants, intimidation of supervisory personnel, and other obstructions in the running of factories, have a design behind them which must now seriously attract the attention of governmental authority. It is clear that the intention of these disruptive forces is to create chaos to further confound the already difficult economic situation in the country. Our factories have had their share of the slow-downs and general disorder prevailing in the state. We have been making all efforts to carry on operations as best as we can; but we are living in a situation when there is no certainty almost from hour to hour, as to when the adventurists may force a situation which may bring the operations to a standstill. I hope that sufficient constructive good sense still

exists which will be able to prevail over the present anarchical situation, before it is too late.

INDUSTRIAL RELATIONS

During the year, your company made a major advance in its industrial relations effort. There had been a virtual freeze in the channels of communication between the management and the unions representing the workers, ever since the long strike which took place a couple of years ago. Determined effort has been made to reopen the channels of communication with the workers. Apart from a restoration of the channels of normal written communications, the forum of joint discussions has been increasingly utilised for a better mutual understanding of the requirements of the business and the work-force. I have personally devoted a great deal of time in the consideration of the problems of our workers, including several personal meetings with the union leaders. In a different governmental climate, these efforts would not only have been greatly appreciated, but would have certainly borne fruit. It is regrettable that in the present climate and mood of the government and the labour, the response to management effort has been an intensification of aggressive actions by the trade union leadership. I have not however given up hope, that sustained effort by the management may still be appreciated by the bulk of our work-force.

LONG TERM FINANCIAL INTERESTS

Coming to our own problems, I am conscious that the shareholders must be disappointed at the recommendation of the directors to pass the dividend on equity shares this year. This was by no means an easy decision for the directors to take. There certainly has been a decline in the profits this year, but the decision to pass the dividend has been taken with a view to improving the liquidity position of the company. We have been working on liquidity margins which could have justification only in a situation of generally liquid national economy. In the present situation of continuously increasing costs, and the credit squeeze policy of the government, it was considered crucial for the company to be financially comfortable to the extent possible. Your directors considered it advisable therefore to plough back into the business the entire residual earnings for the year. I venture to hope that on an economic analysis, you will regard this decision as basically sound, being in the long term financial interests of the company.

The gross profits for the year have been down by about 20% at about Rs 75 lacs. Whereas it may be a matter of no comfort to us, it is still to be noted that the balance sheets of most of the durable goods engineering industries have been showing a similar profit trend. During the year, production of sewing machines was cut back with a view to reducing the heavy carry over of finished goods stocks. The stocks of sewing machines had been mounting up for several years, on account of production being maintained at levels which did not take ultimate sales into account. As this was involving high current assets blockage, it was considered necessary to bring the stock position to normal levels. The lowering of production has in-

creased unit costs of production. There have also been increases in most other elements of costs. Costs of imported materials have gone up on account of devaluation, and interest charges have also gone up. There have been considerable increases in labour costs, and dearness allowance and interim relief payments alone have added Rs 14 lacs to the wage bill, leading to a total higher payment in spite of lower production. While all this may explain the cost and profit situation for the year, I am indeed sorry that the directors had to, in the long term interests of the company, pass the equity dividend.

MANAGEMENT GOALS

In my last year's statement, I had mentioned that we are continuing our efforts to strengthen the management and organisation of our factories. This effort has continued with vigour during the year. Like all single unit companies which later expand into multiple units, the management structure of our company was basically designed for single unit operation. At present we have several manufacturing units, and have sales operations throughout the country and abroad. We are now organising on the basis that each of the units has to be an independent profit centre, and are developing the organisation, and financial and operating procedures which will bring this about. We have also taken steps for strengthening the management teams in each of the units at various levels, to enable them to achieve the corporate goals with independent responsibility. We have started executive training schemes in production and commercial areas for filling up the gaps in our manpower requirements; there have been serious gaps in our management personnel requirement in many areas. Return on investment in the infrastructure of management may not be identifiable immediately, but is bound to pay off in the not too long run.

Improvement in financial liquidity is another area which must receive continuing attention; I have already spoken on this topic in the context of dividends. I would only add that continuous and sustained efforts will be needed in this matter in the coming years.

Profitability of the company's investment is the prime and ultimate corporate goal for the management of any enterprise. We are caught in India in a situation in which costs continue to rise, while prices cannot be correspondingly adjusted. In this situation of cost-price squeeze, profits are the first casualty. We are now working intensively towards the twin objectives of effecting economies in costs of production and marketing, and diversification of our products. Production and sale of needles was reorganised during the year; our needle plant is now having for the first time more orders than it can cope up with. It has also been possible for us to secure continuing orders for the products of our grey iron foundry, to enable the foundry to run at a higher capacity. Our tools department which uptil now was catering largely to meet the requirement of our own plants, is now being geared for meeting external demands increasingly. We have also introduced during the year a new model of sewing machine as well as a fan of a new design. Studies and action is also proceeding in the matter of effecting economies in the costs of production in all cost components such as materials, labour, tools, interest charges etc.

EXPORTS

I am happy to say that our exports during the year were a shade higher in dollar value over the previous year. We are hoping that this year the exports would be still higher. This is gratifying in the face of a general set back to the exports of the country, in the wake of devaluation of the rupee. There has also been improvement in our export pattern, order servicing, product acceptance, and repatriation of sale proceeds. The international market for sewing machines and fans is a highly sophisticated competitive market. We have been gearing our design development department and the quality control depart-

ment to participate in this effort effectively, and I believe that the quality of our products is finding increased acceptance. May I add that the policy of exporting even at a sacrifice, initiated by Sir Shriramji many years ago, is paying off now when recession within the country is threatening the existence of many engineering industries which depend solely on the Indian market. Our export outlets are enabling us to maintain production at levels, which the Indian market could not have supported.

CEYLON

Our Ceylonese subsidiary has done considerably better than the past year. You will see from the annual report of this company, that the sales and profits have gone up. We are taking steps to expand our operations in Ceylon.

Friends, I have attempted to give you a fair account of the operations of the company during the year. To state the facts frankly is not to despair the future nor to indict the past. I believe that considering the general economic and political situation, particularly for the engineering industry, and more so in West Bengal, the results for the year may not be considered unsatisfactory.

TEAM WORK

Before I close, I should like to request you to join me in complimenting the management team of the company, who have been operating under very strenuous conditions indeed, with a courage and conviction of which we must be proud. I should also like you to join me in complimenting our work-force who in my view are basically sound and good, but have been under compulsive pressure for acting in the way that they do at times. While this occasion does not call for recital of our blessings and assets, we do have no greater asset than the willingness of a free and determined people, who face all problems frankly, and meet all challenges free from panic or fear.

Thank you,

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

NOTICE

THE CALCUTTA ELECTRIC SUPPLY CORPORATION LIMITED.

(Incorporated in England)

Notice is hereby given that the Board of Directors of this Company have decided to recommend to stockholders at the forthcoming Annual General Meeting that a Final Dividend for the year ended 31st March 1967 on the Company's Ordinary Stock at the rate of £4½ per cent net (Tax applicable at 8s. 3d. in the £) be paid on the 7th November 1967 to those stockholders whose names are registered in the Company's Stock Register on the 18th October, 1967.

Applications for transfers received in this office before 12 o'clock noon on Wednesday, the 18th October, 1967, will, if otherwise satisfactory, be registered at that date for the purpose of participation in the above Dividend.

BY ORDER OF THE BOARD.

D.P.M. KANGA.

AGENT.

Victoria House,
Calcutta, 27th September, 1967.

RECORDS AND STATISTICS

Tax Deduction at Source

COMPANIES, CORPORATIONS, local authorities, firms, associations of persons and bodies of individuals are, with effect from October 1, 1967, under a statutory obligation, to deduct income-tax at source on interest payable by them to any person resident in India on deposits, loans or other borrowings. Persons responsible for paying such interest on behalf of the government to any person resident in India will also be under a similar obligation. Provision for this has been made in the Income-Tax Act by the Finance (No. 2) Act, 1967.

Individuals and Hindu undivided families are not required to deduct tax at source on the interest payable by them, although the interest receivable by them from the government or from companies, corporations, local authorities, firms, associations and bodies of individuals will be subject to deduction of tax at source.

Tax is to be deducted at source on interest credited or paid after September 30, 1967. Where interest is first credited to the account of the payee, tax is to be deducted at that point of time, and not at the time when it is paid. Where interest is paid without at first crediting it to the payee's account, the deduction is to be made at the time of payment. Accordingly, where interest has been credited to the account of the payee before October 1, 1967, there is no obligation to deduct tax at the time when it is paid, even though the payment is made on or after that date.

Debentures Exempted

The new provision for deduction of tax applies to all interests other than "Interest on Securities". Thus, it applies to interest payable on loans, whether secured or not, deposits of all kinds, moneys standing to the credit of partners in partnership firms and sundry creditors of any business, and borrowings of any kind, except debentures or other securities for money issued by companies, statutory corporations or local authorities. Interest on government securities as well as on debentures or other securities for money issued by companies, statutory corporations or local authorities will, as hitherto, be subject to deduction of tax at source under other provisions of the Income-Tax Act.

Deduction of tax is to be made only where the interest credited or paid at any one time is more than Rs 400. If the interest paid or credited at a time is Rs 400 or less, no tax is required to be deducted from it.

The rate at which tax is to be deducted at source on interest receivable by resident companies is 20 per cent, and in the case of all other persons resident in India, 10 per cent.

Interest receivable by certain entities will not be subject to deduction of tax at source under the new provision. These entities are: (a) banking companies; (b) co-operative banks, including land mortgage banks; (c) financial corporations established by statute; (d) the Life Insurance Corporation of India; (e) the Unit Trust of India; (f) companies and co-operative societies carrying on insurance business; and (g) any institution, association or body notified in this behalf by the central government. So far, the central government has notified for this purpose the Industrial Credit and Investment Corporation of India Ltd, Bombay, the Gujarat Co-operative Housing Finance Society Ltd, Ahmedabad, and the Maharashtra Co-operative Housing Finance Society Ltd, Bombay.

Special facilities have been provided for non-corporate

persons whose estimated total income is below the taxable minimum to receive their interest income without deduction of tax at source. Any such person (other than a registered firm) may, for this purpose, swear an affidavit to this effect before a magistrate or a notary public and furnish it to the payer of the interest. Alternatively, such a person may make a statement, in writing, declaring that his estimated total income during the relevant year will be less than the minimum liable to tax. Such a statement has to be signed in the presence of a gazetted officer of the government or a tehsildar or mamlatdar or any other officer performing similar functions. All that such gazetted officer or other officer is required to do is to certify in the statement that the declarant is known to him.

It is also open to any non-corporate assessee (including a registered firm) whose total income during the relevant year is less than the minimum liable to income-tax to obtain a certificate from the income-tax officer concerned enabling him to receive his interest income without deduction of tax at source. For this purpose, the assessee has to make an application in the prescribed form to the income-tax officer by whom he was last assessed declaring, inter alia, that his total income last assessed was below the taxable minimum and that it was not likely to increase substantially during the three years following that year. The certificate granted by the Income-tax Officer is, ordinarily, valid for three years.

It is open to a non-corporate assessee (including a registered firm) whose total income is liable to tax at an average rate lower than that at which tax is deductible at source, namely 10 per cent, to make an application to the income-tax officer, in the prescribed form, and obtain a certificate from him authorising the payer of the interest to deduct tax thereon at the appropriate lower rate. Such a certificate is also, ordinarily, valid for three years.

Advance Tax

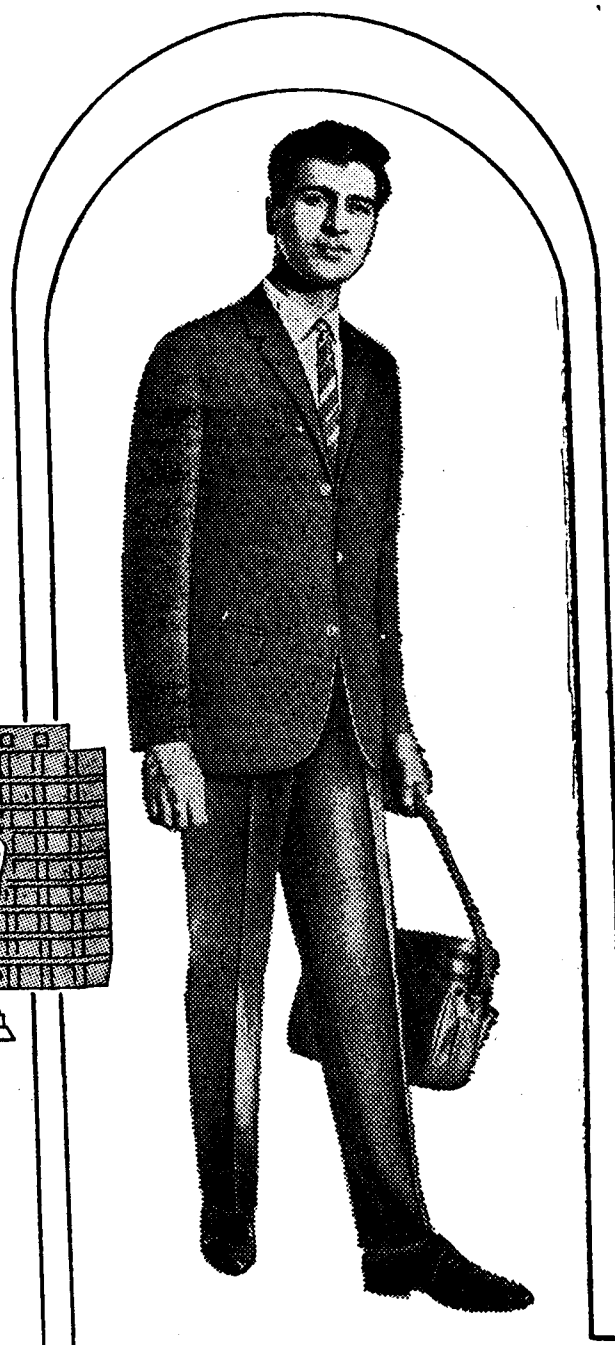
The law provides that where the total income on which advance tax is computed includes any interest or other income which is subject to deduction of tax, the advance tax computed on the total income will be reduced by the tax which would be deductible at source during the financial year on any component of such total income, and only the reduced amount will be payable as advance tax. For this purpose, the tax that would be deductible at source during the current financial year on any interest income included in the total income will be estimated by the income-tax officer on the basis of the information which is available with him in the assessment records or is furnished to him by the assessee. Where the assessee makes his own estimate of the income subject to advance tax, he can himself reduce the advance tax calculated on that income by the tax which would be deductible at source during the financial year on any component of that income.

Under the scheme of the Income-tax Act, deduction of tax at source is only a method of collecting tax on income which is chargeable to tax under the Act. Accordingly, no tax is to be deducted from interest income which, under section 10 of the Income-tax Act, is not to be included in the total income of the recipient and is, thus, wholly exempt from tax. Such interest income is: interest on deposits in Post Office Savings Banks, including cumulative time deposits, and interest credited to the individual accounts of employees participating in a provident fund to which the Provident Fund Act, 1925 applies, or a provident fund which is recognised for the purposes of the Income-tax Act, in so far as the interest credited by such a

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provident fund is exempt from tax under section 10 of the Income-tax Act.

The tax deducted at source from interest income is to be credited to the recipient of the interest at the time of determination of his tax liability on assessment and adjusted against the tax calculated on his total income. Where the tax deducted at source from the interest exceeds the tax, if any, calculated on the total income, the excess is refundable to the assessee.

The tax deducted at source is required to be paid to the credit of the central government within the time, and in the manner, specified in the Income-tax Rules. New provisions have been made in the Income-tax Rules in regard to the tax deductible from interest income; these provisions have been notified in the Gazette of India Extraordinary dated September 6, 1967. Under these rules, where the tax on interest is deducted by or on behalf of the government, it is to be paid to the credit of the central government on the same day by book adjustment. In other case, the tax is to be paid to the credit of the central government, on a challan to be obtained from the income-tax office, by the seventh day of the month following that in which the deduction was made. The income-tax officer is authorised to permit any person to pay the tax deducted from interest to the credit of the central government in quarterly instalments, on the 15th day of July, October, January and April.

If the person responsible for deducting tax on interest income fails to make the deduction or to pay the tax deducted to the credit of the central government within the specified period, he will be liable to pay simple interest at nine per cent

Kennedy Round of Trade Negotiations

AT THE 26th meeting of the Board of Trade, held in New Delhi on October 3, 1967, a number of papers were presented, dealing with various aspects of Indian trade. One of them related to the results of the Kennedy Round of trade negotiations. Excerpts from this paper are reproduced below:

The impetus for the Kennedy Round of Trade Negotiations came in the main from two developments. The first was the recognition in the ministerial meeting of 1961 that the item-by-item bargaining hitherto adopted in the previous tariff conferences was no longer proving useful and a linear approach involving tariff cuts across the board with a minimum of exceptions might yield better results, that little had been done for increasing access to agricultural products; and that the problems of less developed countries needed greater attention. The second development was the passage by the United States Congress in October 1962 of the Trade Expansion Act. This gave the US Administration wide tariff cutting powers, including authority to cut tariffs across the board, subject to reciprocity, by up to 50 per cent. This wide-ranging authority obtained by the late President Kennedy from the Congress made possible the trade negotiations which came to bear his name. Fortynine countries participated in these negotiations.

Between 1947 and 1962 five rounds of multilateral negotiations were held. But these negotiations had by and large failed to resolve the trading problems of developing countries. Consequently at the inaugural meeting it was recognised that in the course of the Kennedy Round high priority would be given to these problems. To this end it was accepted that the participants will endeavour to make tariff cuts deeper than 50 per cent in, or, to eliminate completely duties on products of special interest to less developed countries. It was also accepted that developed countries would not expect, as they had done in the past, reciprocal concessions from developing countries; instead, their contribution to the objective of trade

per annum on such tax for the period of the default. Where the default is without sufficient cause, the person responsible for making the deduction is also liable to pay a penalty. Such penalty may be imposed by the income-tax officer from time to time if the default continues, up to an aggregate amount not exceeding the tax in default. Defaulters can also be prosecuted and will be liable to a fine on conviction.

The person responsible for deducting tax from interest is required to give a certificate of deduction to the recipient of the interest at the time of making the deduction. This certificate is to be given in a form prescribed for the purpose in the Income-tax Rules. On production of the certificate before the income-tax officer, the payee is given credit for the tax deducted against the tax liability determined on assessment.

The person responsible for making the deduction is also required to furnish a return to the income-tax officer, giving particulars of the interest credited or paid to each one of the payees, the tax deducted therefrom, etc. This return is to be furnished every quarter on the 15th day of July, October, January and April in respect of the deductions made during the quarter immediately preceding.

Where a person has paid interest without deducting tax at source, on the strength of an affidavit or a statement in writing filed by the recipient declaring that his total income is below the taxable limit, the payer of the interest is required to furnish to the income-tax officer a return giving particulars of such payments. This return is to be furnished annually, within thirty days from the end of the financial year in which the interest was paid.

liberalisation would be considered in the light of their development and trade needs.

Trade exchange in 1964-65 formed the basis of these multilateral negotiations. In that year the total export from India amounted to Rs 815 crores, of which goods worth Rs 265 crores had been exported to countries in which we did not enjoy any preferential advantage viz., the United States, European Economic Community countries, Japan, Norway, Denmark, Sweden, Austria, etc. The export to countries where preferential advantages are enjoyed by our trade, namely, the United Kingdom, Canada, New Zealand and Ireland, amounted to Rs 191 crores.

Duty-Free Entry

In respect of exports to non-preferential markets, the concessions agreed upon in the final Act cover Indian products of the export value of Rs 196 crores. The concessions include binding of existing duty-free entry of trade worth Rs 57.5 crores; elimination of import duties on trade worth Rs 81.5 crores; reduction of import duties by 50 per cent on trade worth Rs 42 crores; and reductions in import duties varying from 15 to 40 per cent on trade worth Rs 15 crores.

A country-wise assessment shows that the concessions offered by the United States account for Indian exports valued at about Rs 120 crores. While the import duty on cashew kernels, jute fabrics, unmanufactured mica and sandal wood oil, would be eliminated, it would be cut by half on ferro-manganese, manganese ore, jute bags, handloom products, vegetable tanned goat skins, tanned leather, woollen hand-knotted carpets and coir mats and matings.

Only limited concessions have so far been agreed to by the European Economic Community. The tariff concessions given in respect of a number of products on January 1, 1964, would be continued; the duty on East India kips will be reduced from nine per cent to eight per cent ad valorem, on hand-knotted carpets from 32 per cent to 24 per cent and on jute sacking from 23 per cent to 15 per cent. In respect of hand-

loom products, a duty-free quota of two million dollars a year has been agreed upon with a promise for increasing the value limit in the light of actual performance.

In Japan, the main products on which concessions have been accorded are: cashew kernels from 20 per cent to five per cent, vegetable tanned sheep and goat skins undressed from 15 per cent to 7½ per cent, coir mats and mattings and woollen carpets from 30 per cent to 15 per cent.

In Norway, Denmark and Sweden, import duty in respect of tropical products of interest to India and also of semi-tanned leather would be eliminated. Sweden has also agreed to eliminate the import duty on woollen hand-knotted carpets and coir mats and mattings.

In the preferential markets to which our exports in 1964-65 amounted to Rs 191 crores the scaling down of import duties by the United Kingdom, Canada, New Zealand and Ireland would involve elimination or reduction in the margin of preferences enjoyed by Indian exporters in respect of products yielding an export income of Rs 42 crores. The preferential margin would be totally eliminated in respect of trade of Rs 12.5 crores, accounted for mainly by raw goat skins in the United Kingdom, jute and coir manufactures in Canada and tea in Ireland. The preferential margin would be reduced by half in respect of trade of Rs 5.7 crores, the products mainly affected being coffee, kyanite ore, manufactures of mica, canvas shoes and spectacle frames of plastic in the United Kingdom, cotton and rayon fabrics in Canada and rayon and silk fabrics in New Zealand. Margins on products accounting for the export of about Rs 21 crores would be reduced by 25 per cent, the main products in this category being unmanufactured tobacco and vegetable tanned leather in the United Kingdom. The other products adversely affected in the United Kingdom are builders' and sanitary hardwares of iron and steel, sewing-machine, some electrical equipment, etc. on

which the preferential margin would be reduced in varying degrees by 15 to 40 per cent.

In the agricultural sector, a Memorandum of Agreement on basic elements for the negotiation of a World Grains Arrangement has been agreed upon between a group of countries. This Memorandum provides for food aid to developing countries over a period of three years at the rate of 4.5 million metric tonnes a year. The proposed arrangement is still under negotiations.

No reciprocal concessions were demanded from India by our negotiating partners, in the Kennedy Round. But we were expected to make contribution in the light of our trade and development needs. Our contribution has taken the form of offering to reduce the import duty on unmanufactured tobacco, binding the effective rate in respect of a small number of items and eliminating, in respect of some British products, the preferential advantage which we have been providing in the Indian market.

The Kennedy Round will have two main consequences for India. In the preferential market, Indian exporters would be losing some advantage and facing stiffer competition in respect of products on which preferential margins have been reduced or eliminated. In the non-preferential, margins have been reduced or eliminated. In the non-preferential markets, there will be substantial improvement in trading opportunities in respect of products of which India has been substantial supplier and on which substantial tariff reductions have been conceded.

There are still certain unfinished tasks, to which the Minister of Commerce had drawn attention in his statement to Parliament in July 1967. Attention is currently being focussed on these problems in the discussions with the other trading nations bilaterally and in the multilateral forums like the GATT and the UNCTAD.

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Planned Procurement

TWO LEAN agricultural years created numerous problems for our economy and now we are getting ready to tackle a year of bumper harvests. We have already demonstrated that we were ill-equipped to face the hardships of the deficit years. We now seem to be preparing to show our incompetence in handling a relatively easy year. The wrangle over the fixation of grain procurement prices, which is reported to have been settled as we go to the press, reveals the differing approaches of the Planning Commission and the Ministry of Finance on the one hand, and of the Ministry of Food and Agriculture, the Agricultural Prices Commission (APC) and the state governments on the other.

The tussle is, in fact, between the surplus and the deficit states. The former are keen to get the maximum procurement prices fixed for the producers while the deficit states have been demanding a reduction in procurement prices because they are anxious to provide the harassed consumers some relief now that the crop prospects in the country look more cheerful. The APC had worked out "two sets of procurement prices—one for the producer levy and the other for the supplementary modes of procurement—for each cereal in the different states". The producer levy prices recommended by the APC for 1967-68 were invariably higher than the procurement prices at the beginning of the season in the preceding year. It may be stated here that in some states such as West Bengal and Bihar, the difference between the procurement prices at the beginning and the end of the 1966-67 season for paddy was significantly large. In the case of Bihar, the procurement price at the beginning of the season was around Rs 42.87 per quintal but at the end of the season, it rose to as high as Rs 74.84 per quintal. Similarly, in the case of West Bengal, the procurement price for paddy at the beginning of the season was Rs 42.90 per quintal but it rose to Rs 56.25 per quintal at the end of the season. These two, however, were exceptional states in the last agricultural year. In most of the other states such as Gujarat, Haryana, Kerala, Madhya Pradesh, Madras, Maharashtra, Mysore, Orissa, Punjab and Uttar Pradesh the procurement prices remained unchanged both at the beginning as well as at the end of the 1966-67 season. Prof D. R. Gadgil, Deputy Chairman of the Planning Commission, reacted sharply to the proposal of the APC regarding differences in procurement prices because he felt that the producers having capacity to hoard would try to extract the higher price.

On one point, both the Planning Commission and the APC were agreed. Both were of the view that the procurement prices should not be much higher than the minimum post-harvest prices of last year. According to the latest decision taken by the Government of India, kharif procurement prices have been fixed for the state governments in the range of Rs 45 to Rs 56.25 per quintal of paddy (as against Rs 42 to Rs 52 in the last season) and Rs 43 to Rs 55 per quintal of coarse grains. An attempt has been made by the government to iron out disparity in prices in various states while keeping in view the prices suggested by the state governments. We have no doubt that in its effort to pacify the state governments, the Government of India has fixed the procurement price at a high level. While it is true that one bumper harvest would not let prices tumble down considerably, it is necessary that consumers, particularly in the urban areas, should be given some relief. According to newspaper reports, even Prof. Gadgil is a party to the new fixation of prices. It is not known how he came to the conclusion that these prices would not add to the cost of living of the urban population.

It is not certain if all the states would fall in line. The Punjab has already fired the first shot by saying that the prices fixed for it are not satisfactory. This

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is indeed a dangerous tendency. The state-wise zonal system has done considerable harm in the sense that widely divergent food prices exist in neighbouring states. These artificially-created barriers by states must be eliminated at an early date. Perhaps two successive good harvests would automatically achieve what the politicians have failed to achieve so far.

The goal of procuring seven to eight million tonnes of foodgrains during the current agricultural year, if achieved, is not likely to ease the supply of foodgrain or its prices. As a natural consequence, it will result in the continuation of the present schism of rationing in urban areas and the keeping out of the private trade in these areas. The economic and social cost of these controls is likely to be, in our view, extremely heavy and will be reflected in keeping food prices at a high level. Not that the farmer will be satisfied that he has been given a fair price for his produce. He will always think that the government had fixed a lower price than what he could have obtained in the open market. Here we cannot help recounting what we said in these columns in the first week of November last year. We had said: "Controls on prices and marketing are always bound to breed a psychology of discontent and frustration among producers, because there will always be the nagging feeling that, but for government intervention, better prices could have been obtained. Whether such hopes are always justified or not is beside the point; what matters is that it is in the nature of producers to be motivated by the attractions of free market opportunities. The outlook in terms of regimented food could also be equally unsatisfactory from the

Our Markets in Middle East

THE FEDERATION of Indian Export Organisations deserves praise for the promptness with which it has released the report of the trade team it had recently sent to the Middle East. The team's tour lasted from August 2 to 19 and its report was available in the first week of September. Although this is only a preliminary report, it is fairly comprehensive and gives an idea of the opportunities that exist for our goods in this region. The report covers Saudi Arabia, Kuwait, Iraq and Sudan and contains useful information from the point of view of our export promotion although some of its observations do no credit to the Government of India or the export promotion councils.

We are told, for instance, that the Government of Saudi Arabia and prominent businessmen of that country know very little about our industrial achievements. This seems surprising since, year after year, dozens of delegations from this country have been going to Saudi Arabia and other parts of the Middle East; and most of our embassies in these countries have commercial sections. Moreover, the Engineering Export Promotion Council has been functioning for over a decade and one of its primary duties has been to project a correct image of our industrial progress. The report also reveals that the officials of the Central Electricity and Water Corporation of the Sudan were "very critical" of a firm from this country which had supplied defective conductors. As a result, the corporation, it is stated, is

point of view of the consumer." If it is believed that the higher price is necessary so as to provide incentive to the farmer we have not come across any clear evidence in support of it. The latest annual report of the Food and Agriculture Organisation, Rome, has looked into this question in detail and has come to the conclusion that there is no clear proof to show that the producer of foodgrains in developing countries responds to higher prices. We have also to bear in mind that in our zest for increasing foodgrains production, we do not neglect our traditional cash crops such as sugarcane, cotton and jute.

The evidence of the past two years is clear in one respect and that is, that the prices of cereals have raced significantly ahead of the prices of manufactures. The all-India index number of cereal prices (base: 1952-53=100) in 1965-66 was 148.0 as against 149.9 for manufactures. By June, 1967, the index for cereals moved up to 208.6, indicating a rise of more than 60 points, while that for manufactures had risen to 167.3—a rise of only 18 points. It is apparent that the terms of trade have thus run significantly in favour of the village and against the town. This cannot be allowed to continue like this for long without causing further strains. It will be necessary to convince the surplus states that their policy of asking for increased procurement prices can be instrumental in aggravating the present economic situation. With the trading classes out of the picture and the procurement and distribution of food in the hands of inefficient administration, the man in the street is not likely to benefit at least during the current agricultural year from the expected bumper harvest.

incurring "heavy losses" as it was unable to complete its project in time. The report comments that a "very bad image has been created for the Indian manufacturers" and that the corporation is reluctant to make further purchases from this country.

The trade team succeeded in getting trial orders from some countries for several items such as cotton textiles, drugs, cosmetics and batteries but it has warned that unless the prices of our goods are brought down to competitive levels, the prospects of larger exports are remote. It has pointed out, for instance, that the prices of Chinese textiles in Kuwait are about 30 per cent lower than those of ours. Even traditional varieties of textiles such as black-twill and long cloth are difficult to sell because of high prices. Another difficulty relates to the absence of regular shipping services. We are told that at present only one ship a month touches Jeddah from Bombay and that practically there are no sailings from other ports such as Goa, Cochin, Madras

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	Old Number	New Number
Editor	48489	383425
Editorial Department	43883	381899
Managerial Department	44984	384856

and Calcutta. Moreover, the freight rates from Bombay to Jeddah are higher than those from Japan to Jeddah.

The report of the trade team brings out clearly the scope for exporting construction materials to the Middle East. There is now a big boom in construction in Saudi Arabia and tenders are being issued both by the public sector and the private agencies. Interest has been shown in importing skilled workmen from our country, on a contract basis, such as masons, carpenters, welders, fitters and plumbers. It has been suggested that we should send to Jeddah a composite team of businessmen connected with building and construction materials.

The report reveals that Kuwait offers "one of the most attractive markets" for our engineering goods. It has an ambitious programme of electrification which will require transmission line towers, conductors, fittings, earthwire, sub-station equipment, house service metres, cables and wiring accessories. Kuwait's requirements are met by tenders. At present, a tender has been issued for transmission line towers and erection for the Kuwait Oil Company. It is a turn-key job, inclusive of the supply of sub-station equipment and construction, and its value is estimated at about £1 million. An Indian firm, it is stated, is actively following up this tender. Iraq also provides considerable scope for our goods such as diesel engines, pumps and other agricultural machinery.

The Federation's trade team visited the Middle East at a time when the prospects for our exports to this region

Diversification of Provident Fund Investments

AT LONG last, the union Ministry of Finance is stated to be seriously considering the plea of the trustees of the Employees Provident Fund (EPF) that they should be allowed to change the existing pattern of investment of accumulation in the interest of paying a better return to the contributors. No doubt the EPF Act provides for investment of provident fund monies in the securities of not only the central government but also those of state governments, besides in the stocks or debentures of railways and other companies the interest on which is guaranteed by the government, or in debentures or other securities issued under the authority of any central or state legislation or by or on behalf of any municipal body, port trust or city improvement trust, etc.. But all the EPF investments at present are confined to central government securities owing to a directive to this effect from the Finance Ministry; 20 per cent of the investments are in the 12-year national defence certificates and defence deposits and 80 per cent in Government of India securities, including the national defence bonds. The interest accrual on central government securities being much lower than on the other securities in which the EPF accumulations can be invested even under the Act, not to speak of the gilt-edgeds of the private sector, the return which the contributors to the EPF have been receiving has been meagre; it amounted to a bare 3.75 per cent in 1962-63, four per cent in 1963-64, 4.25 per cent in 1964-65, 4.50 per cent in 1965-66 and 4.75 per cent in 1966-67. This year the rate of interest is proposed to be raised to five per

cent which is one per cent less than the Bank rate. As long as the general price level in the country did not rise at more than four to five per cent per annum, the contributors to the EPF did not stand to lose much. At least their capital over the long run did not depreciate much taking into account the fact that the compound interest more or less counterbalanced the fall in the purchasing power of the rupee. But since 1962, with the price rise being 10 to 15 per cent per annum, there has been a considerable erosion in the real worth of the savings in the EPF.

A point which has been repeatedly emphasised by the trade team is that our competitors are able to supply goods at rates far below those of ours; and generally the quality of their products is also better than that of ours. This is especially true of Japan, West Germany, Switzerland and the countries of eastern Europe. Besides, competition from China is becoming more acute. "Chinese prices particularly are political prices", says the trade team's report, "and they are deliberately kept low to out-price Indian products." It is all the more important therefore that there should be the utmost vigilance and co-operation between the Government of India and the trade in their drive for export promotion to this part of the world.

An upward revision in the interest payable on provident fund amounts, thus, has been fairly long overdue. It is, however, not that the Provident Fund Commissioner or the trustees have not been concerned about it. Several attempts have been made by them in the past three years for the grant of permission to invest at least a part of the EPF accumulations in the state government securities or even in the central government's 10-year national savings certificates, the units of the Unit Trust of India (UTI) and the first class debentures and guaranteed loans which could have enabled the EPF management to earn a much better return on the basis of which a higher interest could be paid to the contributors. But all these attempts have been thwarted by the Finance Ministry and the Planning Commission by such arguments as (i) the accumulations in the EPF are taken into account in assessing the central resources for financing the five-year plans; (ii) the national saving

certificates are meant to attract the saving of the people of low and medium income groups; (iii) the UTI units are subject to price fluctuations; (iv) the contributions to the EPF enjoy some tax concession, etc.

These arguments of the Ministry of Finance do not stand close scrutiny. To take the last argument first, it should be apparent to the Finance Ministry that the majority of the contributors to the EPF belong to the lower middle class whose incomes attract no or small tax. Further, the tax concessions do not apply to the contributors to the EPF alone; they are applicable equally to the members of the provident funds which belong to the exempted categories. As regards the argument that EPF accumulations are taken into consideration while assessing the central resources for the plans, suffice it to say that it is only an accounting or budgetary procedure which can surely be changed. Again, the argument that EPF investments cannot be allowed in UTI units for the latter are subject to price fluctuations is equally flimsy. Are not central government securities subject to price fluctuations? As regard the national savings certificates, is it not a fact that investments in these are allowed to corporate bodies and trusts, besides the small and medium investors?

The real motivation behind the Finance Ministry directive to the EPF trustees appears to be the anxiety of the government to procure funds for the state's developmental effort at low rates of interest. We would not grudge the government having this in view provided, of course, the

sacrifice asked from the contributors to the EPF is matched by efficient and scrupulous use of the funds procured cheaply. But is that the case? The working of the public sector enterprises leaves much to be desired.

It is high time that the pattern of investment of the accumulations in the EPF is allowed to be diversified. There is a good case for allowing these investments in the gilt-edgeds of the private sector as well, at least in the preference and debenture issues on which the return is guaranteed. With accumulations in it nearing Rs 750 crores, the EPF is the second largest investor in the country today—next only to the Life Insurance Corporation. Allowing it to invest part of its funds in the gilt-edgeds of the private sector should go some way in reviving the capital market which has touched new low levels this year after 1962, the year of the Chinese aggression. This may require amending of the EPF Act. Immediately, if the EPF trustees are allowed to invest in the term deposits of the scheduled banks, interest to the extent of 7.5 per cent per annum can still be earned. The return from investments in first class stocks, of course, can be 10 to 12 per cent. Through diversification of the EPF investments, the yield to contributors can well be raised to six per cent in the next two years. That should, however, be the minimum aim, taking into consideration the erosion that has already taken place in the savings of the low and medium income group contributors to the EPF. The lessening of the dependence of the government on cheaply procured funds should incidentally make its functionaries more efficiency-conscious than is the case at present.

Sombre Saga of Stock Exchanges

ALTHOUGH THE more pragmatic among those in authority have conceded that "an efficient and broadbased stock exchange is an important constituent of the capital market and will promote the investment habit", official policies and attitudes continue to be such that he would be a bold man indeed who could predict an early return of confidence to investors in equities and a speedy revival of activity on our stock markets. During the last five years, the share prices have been continuously on the decline and there are no signs as yet of a reversal of this trend. This is not the complaint of only the President of the Stock Exchange, Bombay, (Mr Dhirajlal Maganlal), who had one of the most sombre sagas ever of the working of the stock markets in the country to sing—and he did this at the last annual general meeting of that body—but also of the directors of the Central Board of the Reserve Bank of India. In their latest annual report to the Government of India, the directors have categorically stated that "the difficulties which the private corporate sector has been experiencing for the past few years in raising adequate resources from the open market, particularly risk capital, increased during the year under review (1966-67)". Giving their reasons for the low levels of activity on the stock markets, they referred (i) to the persistent rise in prices (thereby reducing the capacity of the public to save and to invest) and the diversion of available savings into appreciating assets (thus confirming the point made by stock exchange spokesmen regarding the sizeable loss in capital value of investors in equities). Referring to

the slowing down in new issue activity, they pointed to the increase in capital costs of projects, following the devaluation of the rupee, and said: "Almost all the new issues had to rely heavily on institutional support in the shape of contributions to securities issued." The same reasons were attributed by them to the fall in consents for capital issues in respect of equity issues, preference shares and debentures, as also to the lower level of operations of the term lending institutions, despite several measures of liberalisation adopted by them.

What the directors of the Central Board of the Reserve Bank have said are more or less broad generalisations and they do not bring out the full extent of the impact experienced by our stock markets. A vivid account of this, however, was unfolded by Mr Dhirajlal in his presidential address. Evidently, as a leading stock and share broker, he was piqued by some of the cavalier criticism of his tribe by the powers-that-be. As he pointed out, it seems to have become a fashion these days to chide the investor for his timidity, the stock market for its despondency, and the stock-broker for his apathy and lack of enterprise and imagination. As if the stock-broker does not know how to get business or get about it—not that the stock exchanges have left nothing undone by way of serving the investors—so many pieces of gratuitous advice are offered to him (he is asked, for instance, to comb the cities, towns and townships and also to go to the rural areas and mobilise the savings of

the people for investment in equities) that no serious and worthwhile attempt is made by those who offer such advice to inquire why equities are being "deliberately debased and devalued".

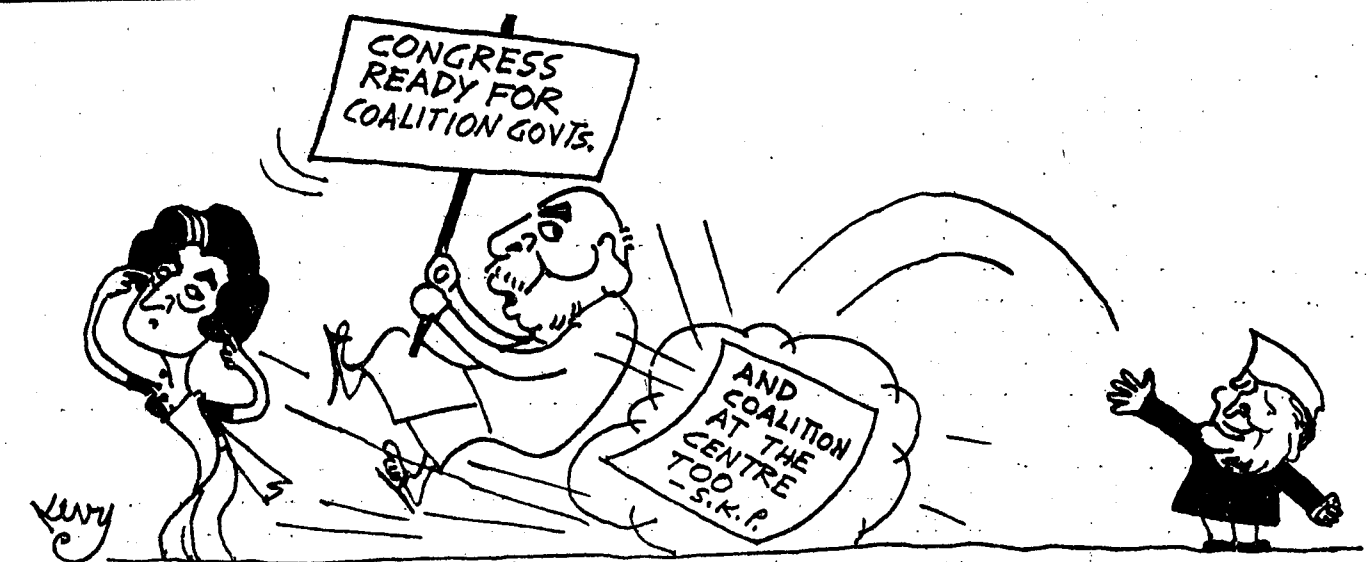
Equities hold two attractions, in the main, to an investor, namely, yield and capital appreciation. And in regard to both, as the Bombay Stock Exchange President observed, they have had nothing attractive to offer to the investor for quite some time. Between 1960-61 and 1965-66, according to a Reserve Bank study of joint-stock companies, profits after tax were slashed by about 20 per cent—from 5.1 to 3.9 as a percentage of sales and from 5.1 to 3.7 as a percentage of net worth. Over the same period, dividends as a percentage of paid-up capital dropped from 11.2 to 10.2 and, as a percentage of net worth, from 6.6 to 5.1. This drop of 9 per cent and 23 per cent, respectively, contrasts with an increase of 50 per cent in the Bank rate—from four per cent to six per cent and a much higher increase in other interest rates.

The investor's experience was even worse in respect of his holdings in new issues. Thus, out of 263 new issues that came on the market between January, 1961 and June, 1967, according to the "The Economic Times", as many as 144 or more than 55 per cent were quoted below par at the end of June, 1967, 69 or about 25 per cent were quoted nominally at par and the remaining 50 or only 20 per cent at a slight premium. The adjusted "Financial Express" Index for Initial Issues fell sharply from 115 in May, 1961 to 80 in August, 1967, a fall of as much as 30 per cent.

From the point of view of capital appreciation also, equities have been disappointing. If, between 1962 and 1937, the value of the rupee dwindled by 50 per cent (another way of saying that prices went up by as much), equity prices slumped by 25 per cent. In fact, equity prices started on their downward path from June, 1962, falling at an average rate of about seven per cent per annum. The adjusted index number of variable yield securities of the Reserve Bank (Base: 1961-62=100) came down to 76 by mid-August (It was 75.8 on September 19). In other words, over the same period, an investor in equities, instead of finding his investment

appreciate, had the unfortunate experience of being confronted with a sizeable capital depreciation.

To add insult to injury, the investors are maligned either as millionaires or pilloried as parasites, or both. But, what are the facts? To quote Mr Dhirajlal: "It is a persistent but mistaken belief that the average investor in India is a wealthy capitalist. As a matter of fact, out of about two and a half million book stockholders, more than 90 per cent have a holding of less than Rs 10,000 and they could be, by and large, called middle class citizens." But it is precisely this class that is hit, and continues to be hit, as witness the Annuity Deposit Ordinance, by the government's fiscal and monetary policies. The position of this class of investors is all but desperate and, as Mr Dhirajlal has argued, the facts cry out for protection of equity values, for reliefs and concessions in the matter of dividends, and not for further restrictions. Some of the reliefs he asked for are neither gifts nor favours, but "essential first steps" for undoing the great wrong that has been done to the investor in industrial securities. Accordingly, the Bombay Stock Exchange President is perfectly justified in pleading that "the long-term revival of the investment market demands the adoption of reasonable fiscal and monetary policies—a fiscal policy designed to restore the profitability of investment in equity, its power to earn, grow, expand and appreciate, and a monetary policy making money easier and reducing the high rates of interest which are perpetuating a high cost economy and suffocating further growth." He is justified in suggesting that the present time—when industry is in the throes of a growing recession and the prospects of a good agricultural harvest hold out hopes of a falling price level—is quite opportune to bring down the interest rates. It is known, however, that the Governor of the Reserve Bank is still for a selective and cautious—almost pusillanimous—easing of money rates. There is no gainsaying the fact that, in order to achieve rapid industrial growth—and who will doubt or deny the need for this today?—it is imperative to revitalise the capital market. The need is the greater in all conscience when prospects of the requisite quantum of foreign aid are distinctly receding, to say the least.



Logically speaking!

Recession and the Rains

THE PROSPECTS of bumper crops in the current year seem to have created a feeling of optimism in the Government of India about an early economic revival but it is necessary to take care that optimism does not lead to complacency. Although the severe droughts of the last two years were largely responsible for the recession, other factors also have powerfully contributed to it. It follows therefore that the good monsoon by itself cannot help to reverse the recession which started with the engineering industry. In recent months, it has spread to other sectors of the economy as well. Cotton textiles, jute goods, sugar, paper, sheet glass, refractories, hardboards—these and several other industries have also been affected adversely. Apart from the fall in agricultural production, the continuous increase in direct and indirect taxation, difficulties in procuring credit facilities, lack of demand from within the country and abroad, and growing labour indiscipline—all these have contributed to the present situation.

In these circumstances, it is not realistic to expect that the economy will bounce because of the bumper crops. The Government of India should take positive measures to increase production, improve incomes, and give a strong fillip to savings and investment. The Indian Chamber of Commerce, Calcutta, in a recent study, has made many specific suggestions to combat the recession. These include stockpiling by the government of certain engineering and other goods, higher investment in the railways and in the programme for generating new power capacity, cut in unproductive expenditure, stricter control on imports of machinery, spare parts and components, efficient management of industrial undertakings in the public sector, and substantial fiscal concessions. In the last category, the Chamber's main suggestions also include a reduction in the excise duties on products of mass consumption such as sugar, matches, cloth, fans, sewing machines and cycles as well as on raw materials such as pig iron, steel and chemicals, cut in personal income tax rates, abolition of the annuity deposit scheme, surtax on company profits, dividend tax and the surcharge on company tax, and further liberalisation of the credit policy by the Reserve Bank.

The Chamber has quoted the example of West Germany to substantiate its arguments. West Germany also has been experiencing a recession, the rate of growth of the gross national product having fallen from an average of 9.4 per cent between 1951-55 to 6.4 per cent in 1961-65. It was only about three per cent in 1966-67 and for 1967-68, it is estimated to be around two per cent. The government of West Germany has attempted to fight the recession by a drastic cut in unproductive expenditure, by stepping up orders on the railways and other public services, by reduction in income tax, by lowering the Bank rate from five to three per cent, and by relaxing the minimum reserve requirements of commercial banks, which has helped to release additional funds of the order of about \$150 million.

However, proposals involving loss in revenue are unlikely to find favour with the Government of India. The argument that the fiscal concessions will ultimately benefit the exchequer as a result of larger production and higher economic activity may not carry much conviction with the

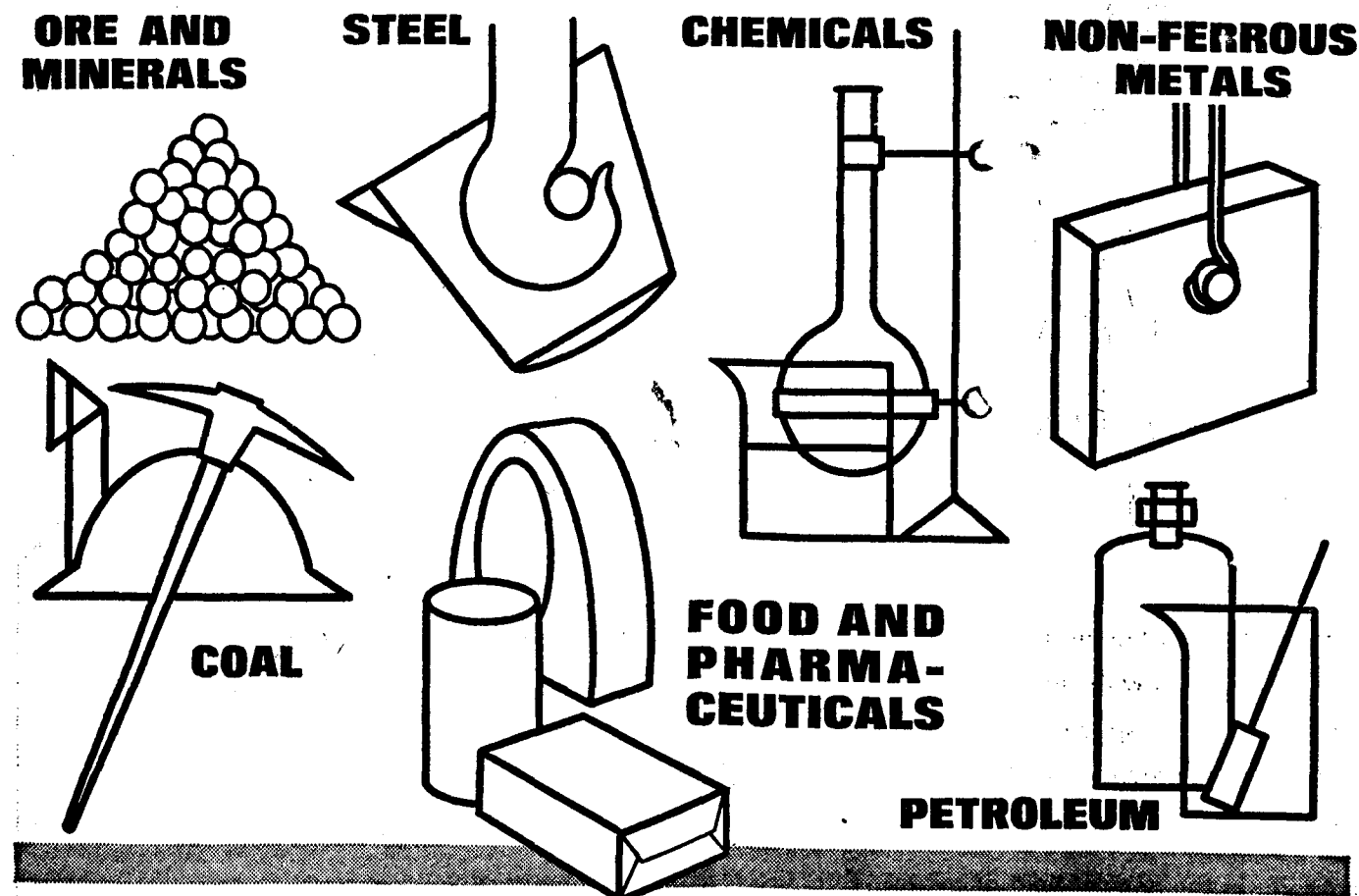
government. Considering the fact that it recently had to resort to the extraordinary procedure of issuing an ordinance to widen the scope of the annuity deposit scheme which is expected to yield an additional sum of about five crores of rupees. At the same time, it is equally clear that without substantial fiscal concessions, early recovery of the economy is most unlikely to take place. The proceedings of the recent meeting of the Board of Trade have made it quite clear that the outlook for exports is far from encouraging. Those who had expected that the recession would prove a blessing in disguise to the country by encouraging manufacturers to turn to foreign markets must have been disappointed by Mr Dinesh Singh's address to the Board. The Commerce Minister quoted figures to show the discouraging performance of exports and he pointed out how even most of the priority industries had failed to show any substantial improvement in their exports.

The failure of the export policy is largely due to the fact that the prices of our goods generally are uncompetitive. The problem cannot be solved merely by giving certain concessions to the so-called export sector or the priority sector. It is essential that the economy as a whole should grow dynamically and this will be possible only with a rational and realistic fiscal policy.

It has now become a fashion to exhort the industry to look upon the recession as a challenge and an opportunity to show its initiative and enterprise. For instance, Mr N. D. Nangia, Chairman of the Industrial Finance Corporation of India, at its annual meeting on September 28, 1967, said, "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."

Mr Nangia quoted figures to show how the recession had adversely affected the working of the Industrial Finance Corporation. For instance, he pointed out that the defaults in the payment of interest increased from Rs 61.42 lakhs in 1965-66 to Rs 116.82 lakhs in 1966-67 and in the repayment 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. Another significant revelation made by him was that the corporation had met with little success in its efforts to dispose of shares and debentures worth about Rs 17 crores because of the stagnation in the capital market. It is strange that the Chairman of the Industrial Finance Corporation expected the industry by its own efforts to cut down costs and improve its profitability. The time has come for the Government of India to review its policies, especially fiscal, and adjust them suitably so that the country can take advantage of the good crops to impart speed and vigour to economic growth.

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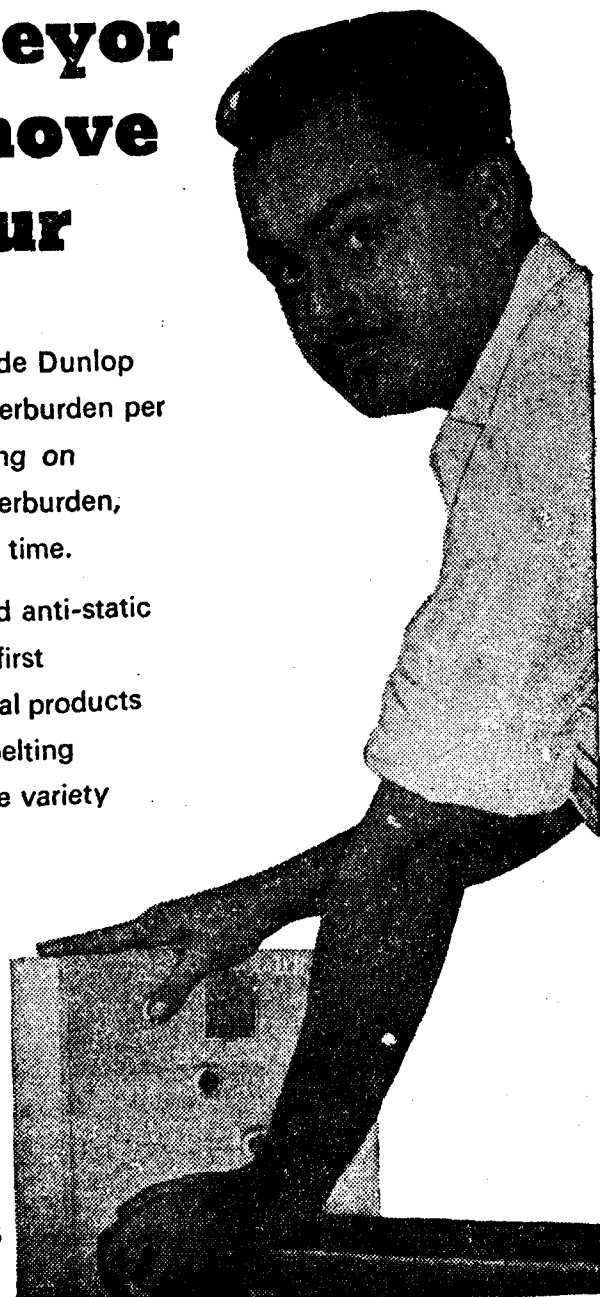
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MAC-19

Sterling and the Common Market

PAUL EINZIG

DURING AND immediately before the Rio de Janeiro meeting of the International Monetary Fund the Chancellor of the Exchequer, Mr Callaghan, made a new effort to indicate that Britain is quite willing to sacrifice sterling's international role for the sake of gaining admission into the Common Market. In an article appearing in 'Le Monde' he declared his willingness to merge sterling into a united European currency. In his main speech at the IMF meeting and in the course of a subsequent press conference he stressed Britain's willingness to relinquish sterling's role as a reserve currency. In prevailing circumstances both ideas are utterly impracticable, however.

The merging of sterling into a European currency to be created by the European Economic Community is impracticable (a) because Britain's chances of being admitted into the EEC are nil, and (b) because even the six existing members of the EEC are very far from having reached the stage at which they could think of a common currency, or indeed even of a common monetary policy.

So long as General de Gaulle remains President of the French Republic he is certain to veto Britain's admission. The undignified eagerness of British statesmen and politicians of all parties to meet all his conditions as soon as he pronounced them will be of no avail. Even if the British government were willing to sign on the dotted line without stipulating a transition period or any other safeguards, all that would happen would be that General de Gaulle would invent additional conditions. And it is quite futile to hope for his demise or his retirement. As the recent French local clearly foreshadowed, de Gaulle's departure would mean the advent of a France governed by a coalition of the Left in which the Communist Party would predominate. It seems doubtful whether such a government would be keener on admitting Britain than the present government.

No Currency Merger

But in any case it would be a long way from Britain's admission to the creation of a European currency. The currencies of all the six existing members of the EEC are at present sounder than sterling and the peoples of the six countries concerned have shown more willingness than the people of Britain to deflate whenever necessary to restore their currencies to equilibrium. Yet in spite of this there are no indications of any early move towards the unification of these currencies. How much more difficult it would be to carry out that task if sterling too were to be merged into the new European currency.

Where De Gaulle and his advisors make a mistake is by assuming that sterling would be stronger if it relinquished its role as a reserve currency. On the contrary, that role constitutes a source of strength and not a source of weakness. Had it not been for the willingness of Sterling Area countries and also of countries outside the Sterling Area to acquire and retain sterling there would have been much stronger and much more frequent pressure on sterling since World War II. To a very large degree the operation of sterling as a reserve currency has cushioned sterling against adverse balances. If by some miracle it were possible for Britain to relinquish sterling's role as a reserve currency the problem of the EEC in including sterling into a European currency would become greatly aggravated. The assistance which is now provided to sterling by the willingness of foreign holders to hold their reserves in that form would have to be replaced by a corresponding assistance by the members of the EEC.

Mr Callaghan has firmly pledged himself to safeguarding the interests of existing overseas holders of sterling in any change of the status of sterling. Although he did not make it clear what he meant by that promise, if it meant anything it meant that holders would be at liberty to retain their sterling

or to convert it into acceptable balances offered to them in exchange. So there could be no question of any compulsory conversion of foreign sterling balances into Supplementary Drawing Rights of the IMF or into any other form of international currency.

In order to be able to afford to convert overseas sterling balance into an acceptable form—say into dollars or into some other hard currency—it would be necessary for Britain to obtain very substantial external aid. As Mr Callaghan candidly admitted at the Rio press conference, no offer to that effect has so far been forthcoming. Although he announced on that occasion his willingness to consider any offers, I doubt if it will become necessary for the Postmaster General to arrange for a supplementary mail delivery service in order to convey to the Treasury the multitude of offers that would follow his announcement.

Immediate Problems

Mr Callaghan's immediate problem is to find external assistance to enable him to meet the current deficit of the balance of payment that is likely to arise as a result of his reflationary measures and of the revival of the wages spree following on the removal of the wage restraint. He will also have to make provisions for the repayment of the debt owed to the IMF and to foreign central banks. The amounts involved have increased considerably during the summer after their decline in the spring. Unless and until these immediate problems are solved he is not in a good position to think of any additional assistance on a much larger scale to enable him to pay out overseas holders of sterling in a form acceptable to them.

It is most unlikely that even official holders of sterling would be willing to accept for their holdings book-keeping entries in Supplementary Drawing Rights. In any case the new device cannot make its appearance until 1968, and judging by the French attitude at Rio it does not seem safe to take it for granted that the new project would be ratified and activated by then. So whatever changes the government is contemplating in the status of sterling it is not imminent by a long way.



"How is that for I.T.Y?"

Bright Future for Petrochemicals

SUDHAKAR RAJE

THE MANUFACTURE of petrochemicals has been accepted all over the industrial world as one of the three main sub-industries stemming from the basic industry of oil production, the other two being the refining and the distribution of oil. When, in the early days of the petroleum industry, not much more was expected of it than lighting our lamps and running the few cars that were there, the products required for these and similar functions could be produced from 'crude' oil by simple distillation. With the mass production of cars after World War I, the distillation process proved inadequate for producing sufficient quantities of motor fuel. This led to the manufacture of such products through a chemical decomposition process called "cracking" which, at the same time, yielded large quantities of very light and highly reactive gaseous products, known as 'olefins'. It was the search for a use for these olefins that gave an impetus to the development of the petrochemical industry. In fact olefins are called the 'building blocks' of petrochemicals.

In the global context the chemical industry is today growing much faster than industry in general, while the expansion of its petrochemical sector in particular easily surpasses that of the whole. The chemical industry is particularly attracted to hydro-carbons (petroleum and natural gas) mainly because of their abundance in nature and their consequent capacity to supplement or displace other 'feedstocks' (basic materials) in short supply. They are in a position to provide the required products in virtually unlimited quantities at constant quality and often at appreciably lower costs than those attainable through alternate sources. At the same time the phenomenally increased use of petroleum-based feedstocks for chemicals is equally due to the opening up of entirely new industrial fields, such as the synthetic rubber industry. Besides synthetic rubber, petroleum-derived chemicals are used in the manufacture of innumerable other things—in plastics, detergents, solvents, paints, insecticides, films, lacquers, glycerine, explosives, fertilizers, and synthetic fibres, to name only some of them.

Initial Development

Much of the chemical reaction used in the petrochemical industry today had been known for a long time before the industry as such came into being. But the gap between a laboratory synthesis and commercially successful large-scale process is often very wide. Up to 1920 no pure chemicals had been made from petroleum, but in that year the first ever petrochemical plant was commissioned in the US for the manufacture of alcohol from refinery gases (i.e., gases produced during the process of refining crude petroleum into various products). In fact, the manufacture of petroleum chemicals was initially developed in the United States of America chiefly as a means of using up refinery gases.

Although petrochemicals made a rapid advance in the United States during and since the World War II, in Europe the setting up of large-scale petrochemical plants had to await the development of adequate refining facilities, which got into stride only in the late '40s. From then on, however, western Europe's petrochemical potential has grown at a fast pace—about fivefold increase took place in the last six or seven years alone. Already about 30 per cent of the total west European production of organic chemicals is currently derived from petroleum. In Asia, the Japanese petrochemical industry, though less than a decade old, has been expanding at a rate comparable to that of western Europe.

This country, at present, has no petrochemical industry as such, but an assessment of the required raw materials available in the country can indicate the prospects in this direction. The petroleum raw materials available at an oilfield or a re-

finery for the manufacture of petrochemicals can be broadly divided into three categories—gases, liquids and solids.

The gases include natural gas and refinery gas. In our country, natural gas has been found in commercial quantities in the Nahorkatiya and Moran oilfields of Assam and in the Cambay field in Gujarat. The present estimated recoverable gas reserves in Assam are slightly over 700,000 million cubic feet. Now that nearly three million tons of crude oil are produced for the Gauhati and Barauni refineries, about two to three million cubic metres of gas per day should be available for industrial and domestic use. Natural gas was also discovered in the Jwalamukhi region of Punjab in 1958 but it does not appear to be available in commercial quantities.

Refinery gas is obtained as a result of processing of crude oil, and its quantity and composition depend upon the nature and quantity of the crude processed as well as upon the type of processing in the refinery. Except for small quantities sold as liquefied petroleum gas, refinery gas in our country has hitherto been used mainly as refinery fuel.

Liquid Raw Materials

Among liquid raw materials for a petrochemical industry, Naphtha is the most important in the context of our requirements, for it gives 'building' materials for various chemicals. Naphtha is a fraction included in motor gasoline, kerosene and some other refinery products but in this country naphtha would normally mean a motor gasoline fraction, as kerosene being a deficit product, no potential kerosene fraction can be spared as feedstock for petrochemicals.

Motor gasoline production, on the other hand, is in excess of demand in this country. The surplus is at present exported but with the establishment of new refineries, considerable volume of naphtha could be available for the manufacture of nitrogenous fertilizers and other petrochemicals.

Solid raw petroleum materials of use in the chemical industry are wax, petroleum coke and sulphur. At present only the Assam Oil Company's refinery at Digboi produces paraffin wax, much of which is exported. As the chances of exporting increasing quantities of wax are not bright, almost all the waxy extract produced at the Barauni refinery and other lubricating oil plants may have to be burnt as fuel or, alternatively, could be 'cracked' to produce valuable chemical feedstocks, which are used for the production of alcohol, detergents and lubricating oil additives.

Petroleum coke is required for the aluminium, calcium carbide, ferro-alloys, graphite and other industries. At present refineries at Digboi and Gauhati produce such coke and the Barauni refinery will also be producing it.

The last solid raw material, sulphur, need not be discussed, as, though sulphur is of importance to this country, the sulphur content of our crude is small for commercial extraction.

Since the '50s conditions in our country are becoming favourable for the setting up of petrochemical industries. Oil and gas have been located on commercial scale by the Oil and Natural Gas Commission in Gujarat, and by the Assam Oil Company at Nahorkatiya and Moran in Assam. A network of refineries is also being set up throughout the country. In addition to our first refinery at Digboi, Assam, three coastal refineries have been set up in the private sector by Burmah Shell, Stanvac (now Esso Standard) and Caltex, respectively. In the public sector there are already three refineries in operation—one each at Gauhati (Assam), Barauni (Bihar) and Jawahar-

nagar (Gujarat)—while a fourth has been built by the government at Cochin with Phillips Petroleum Company of the USA as a minority share participant. Further, a public sector refinery is at present under construction at Madras with National Iranian Oil Company and American International Oil Company as minority participants, and the government is also actively considering the possibility of yet another refinery at Haldia (Calcutta).

On the strength of these facilities the government is seeking to lay the foundation of a national petrochemical industry in the country. In 1961 the government first announced its decision to develop the petrochemical industry on the basis of integrated complexes contingent upon the availability of adequate feedstocks, mainly from refineries both in the public and private sectors. To examine the feedstock position in details the government appointed a committee, known as the Kane Committee, and also called for expert reports from the French Institute of Petroleum and the ENI, the Italian state oil undertaking.

Of these three reports, the one received from the ENI is of a preliminary nature and limited in scope, as it dwells only on the possibilities of petrochemical development around the refineries in Bihar and Gujarat. The report tries to chalk out a plan for two petrochemical plants based on the raw materials available at these two refineries.

The Kane Committee report suggested a plan for disposal of surplus naphtha in the country; its major recommendation was the setting up of four 'steam cracking' units, each with a processing capacity of 200,000 tons per year of naphtha, in order to meet the country's requirements of basic chemicals like ethylene, propylene, butylene and butadiene. It has been estimated that we will have a surplus of three million tons of naphtha by 1970-71.

Efficient Utilization

The report of the French Institute of Petroleum recommended that for the most efficient utilization of available petroleum raw materials in making intermediate as well as 'end' products, five petrochemical complexes might be set up in the country. They should be located at Bombay, Gujarat, south India, Barauni and east India.

Discussing what constitutes a viable petrochemical unit in the Indian context, the report recommended large, fully integrated plants capable of absorbing all by-products under the control of one organisation. It pointed out that there were too many uneconomic plants being operated on a small-scale in protected markets, as a result of which in many cases, the consumer in developing countries paid twice or thrice the price paid by his opposite number in the most advanced countries. The report warned that failure to develop a large enough petrochemical industry might cost this country Rs 140 crores in precious foreign exchange in 1971.

Synthetic rubber, synthetic fibre and plastics are the most familiar petrochemical manufactures. The country's present installed capacity for the production of plastics is 34,000 tons per year, but is targeted to rise to 318,000 tons in 1970-71. The total synthetic rubber consumption was just 18 tons in 1952, but rose to 9,600 tons in 1961 and to an expected 20,000 tons in 1965-66. It is estimated that by the end of the fourth Plan synthetic rubber consumption will be 21,000 tons, but production is targeted to rise to 120,000 tons. As for synthetic or man-made fibres the present installed capacity is only 1,000 tons per year but the 1970-71 capacity target is as high as 108,000 tons. Targets for the fourth Plan for the manufacture of a variety of organic chemicals have also been set and the following volumes of annual production in respect of major chemicals are envisaged: Ethylene, 175,000 tons per annum; propylene 70,000

tons, benzene 174,000 tons, butadiene 50,000 tons, xylenes 42,000 tons, phthalic anhydride 25,000 tons, phenol 43,000 tons, caprolactam 30,000 tons, acrylonitrile 25,000 tons, terephthalate 20,000 tons and synthetic detergents 50,000 tons.

With these goals in view, a beginning for a petrochemical industry has already been made, though the current acute shortage of foreign exchange has compelled it to be modest. A small naphtha cracker sponsored by Union Carbide, our first petrochemical plant as such, went on stream recently near the coastal refineries at Bombay, while a much bigger petrochemical complex, being set up by the National Organic Chemical Industries Limited (NOCIL) is expected to be commissioned in the latter half of the current year. Negotiations are also under way for setting up a third complex near the refinery in Gujarat. Feasibility studies have been made for the establishment of some petrochemical industries near Barauni refinery and they are at present being examined. Further, it is planned to set up petrochemical complexes near the Madras and Haldia refineries during the early years of the fifth Plan.

Tremendous Impetus

Plants processing almost two-thirds of the targeted fourth Plan capacity in the manufacture of synthetic fibres, synthetic rubber, thermoplastics, detergents and other petrochemical products are located in various industrial centres such as Trombay, Thana, Kota, Mettur, Tuticorin, Visakhapatnam, Rourkela, Madras, Calcutta, Surat and Modi Nagar and involve an investment of Rs 200 crores. Products from these plants will be consumed by the chemical, textile, engineering and other industries all over the country and will provide a tremendous impetus to the future growth of the industry on a large, medium as well as small-scale. For instance, in the processing of thermoplastics, the availability of plastic resins will increase by over four hundred per cent by the end of next year and over five hundred per cent over the next three years. Much of this increased production will be processed by plants in the small-scale sector devoted to industrial and consumer articles substituting those made from ferrous and non-ferrous metals, timber, paper and other scarce, traditional raw materials. In addition, plants operating on highly traditional raw materials such as carbide acetylene and ethylene alcohol have been encouraged

Eastern Economist 20 Years Ago

OCTOBER 17, 1947

The Committee on European Economic Co-operation which was set up at the Paris Conference has submitted its report after nearly two months. From all evidence the report is a document of far-reaching importance both to Europe itself and to world economy. It is too soon as yet to say whether the objectives and targets laid down therein will be capable of being attained; nor is it possible to prophesy the exact form and quantity which American assistance will take. Even as the Committee was engaged in its labours, the European economic crisis continued to deteriorate and a number of countries have had to impose import and exchange restrictions. The crisis is even now deepening. The report is therefore only an initial report subject to review and revision. Nevertheless it may be stated at once that the report represents the first great step towards European economic co-operation on the part of the 16 nations assembled at Paris. President Truman has characterised this as an important and encouraging first step. Mr Bevin, the Chairman of the Conference, regards it as the beginning of a great co-operative endeavour.

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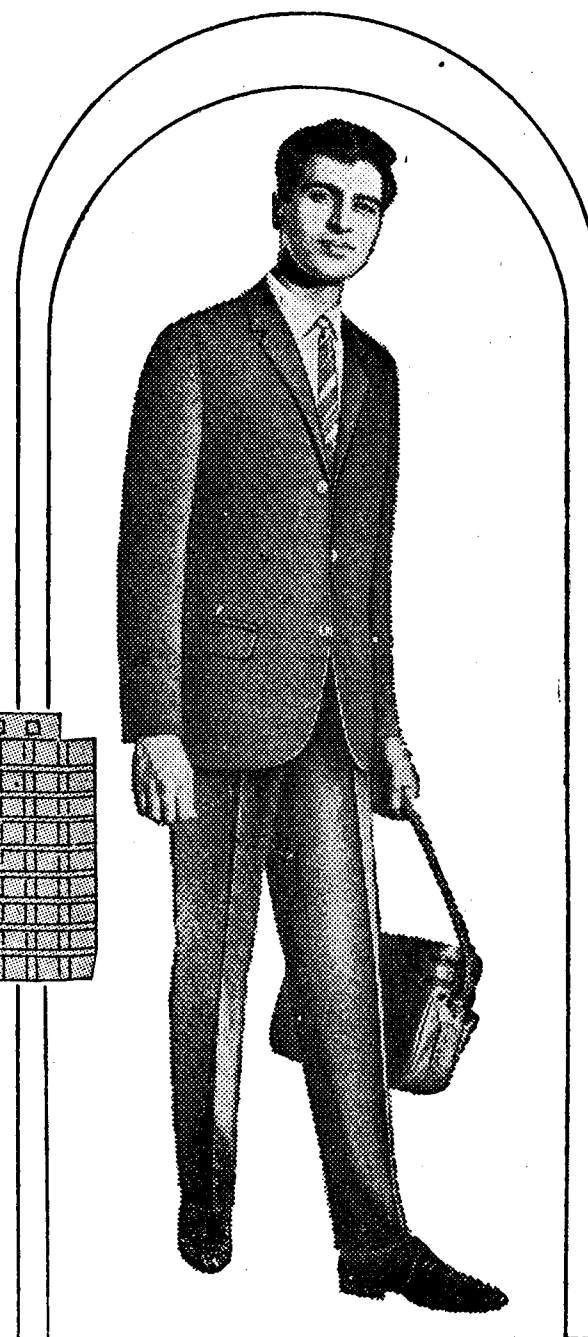
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to expand their production and switch over to cheaper petroleum and petrochemical raw materials in order to reduce their costs of production and become more competitive.

The petrochemical route is also being increasingly adopted for fertiliser manufacture in this country. The Fertiliser Corporation of India has launched a programme for setting up a chain of fertilizer factories all over the country, of which three use or will use natural gas or other petrochemical feedstocks—one set up at Trombay, one being set up at Namrup, and one proposed at Gorakhpur. A private fertiliser plant based on naphtha is also under construction at Coromandel, and steps are being taken for the construction of a big plant near Madras, in which the Government of India has collaborated with a US firm. Other fertiliser projects based on petroleum feedstocks include a mixed sector plant at Baroda, at present under construction, a private plant at Visakhapatnam to use refinery gases or naphtha from the Caltex refinery, expansion of the FACT plant at Alwaye (Kerala) as also the Ennore plant and plants at Mangalore, Hanumangarh (Rajasthan) and Tuticorin.

All this anticipated growth in the petrochemical sector naturally calls for huge investment. The additional investment,

excluding that already committed for the Bombay complexes and for which resources have to be found, is of the order of \$500 million. This does not include the investment on fertilisers, which may be another \$500 million and also the conversion and fabrication facilities estimated to be of the order of 350-400 million dollars. However, these targets are by no means ambitious if we consider that a big country such as ours is trying to achieve by 1971 what some of the European countries and Japan have already achieved.

The programme for the establishment of the petrochemical industry during the fourth Plan is part of a perspective plan drawn up for development of this industry for the 15 years—1965-66 to 1980-81. Although some of its aspects may undergo a change as a result of technology, development of newer and better products, and changes in the availability of raw materials, it can be expected that petrochemical complexes will be established near all major refinery centres over this period. Moreover, while a large number of plants located at considerable distances from the refineries will expand and switch over from higher cost traditional raw materials to petroleum and petrochemical raw materials during the fourth Plan, others are expected to carry out this switch-over in the early years of the fifth Plan.

Wages Should be Linked with Productivity

A. AZIM

THIS ARTICLE analyses the factors responsible for a large number of industrial disputes related to the problem of wages vis-a-vis the impact of rise in price. The increasing number of strikes and lock-outs in terms of mandays lost reflects broadly the widespread discontent in the country. Any comprehensive indicator of work-stoppages must, therefore, take into account the number of workers involved and the frequency with which stoppages occur during a given period. The most significant consequence of industrial unrest is a reduction in production which creates stresses and strains in the relationship between employers and employees. Among the numerous causes responsible for industrial disputes, differences over wages, allowances and related matters such as payment of bonus to workers are the most predominant (see Table I).

TABLE I
NUMBER OF DISPUTES, WORKERS INVOLVED AND
MANDAYS LOST: 1956-66.

Year	No. of disputes	Number of workers involved	Mandays lost
1956	409	2,58,185	22,29,576 (31.89)
1957	671	4,47,417	30,08,362 (46.79)
1958	637	4,55,817	41,47,497 (53.19)
1959	558	2,34,950	15,66,638 (27.81)
1960	718	5,06,439	29,91,553 (45.77)
1961	490	1,72,179	20,99,586 (42.69)
1962	627	4,17,906	37,55,944 (61.36)
1963	555	2,56,555	14,30,055 (43.75)
1964	907	4,26,906	34,36,149 (44.48)
1965	793	6,29,941	32,43,141 (50.13)

The figures in brackets indicate the percentage to total mandays lost for the year.

In the public sector a large number of disputes occurred during the period 1956-65 over the demand for increase in wages. In December, 1956, there were widespread strikes in the Life Insurance Corporation of India over the demand for revision in wages. In September and October, 1957, all the bank employees struck work, demanding an increase in compensatory allowance. The strike by the central government employees assumed a serious turn in 1960. In the Bombay Municipal Corporation, the employees went on strike in 1958, 1962 and 1963 over the demand for increase in the payment of dearness allowance. In the private sector, the strikes were not less frequent. In 1958, about 29,000 workers in the Tata Iron and Steel Co. went on strike on the issue of increase in wages. In 1960, there was great unrest in the bidi manufacturing factories over the revision in minimum wages. In 1961 and 1962, Kerala witnessed a large number of strikes in tile factories and cashew industry, the demand being increase in wages and payment of bonus. In 1963, 46,000 workers of 14 textile mills in Bombay went on strike demanding an increase in the quantum of bonus. In 1964, practically in every state there was great unrest, the demand being increase in wages because of the rise in prices. In 1965, the workers of bidi establishments went on strike in North Arcot, Madras, West Bengal and Maharashtra over the demand for increase in wages, dearness allowance and bonus involving a loss of more than 400,000 mandays.

The usual practice is to link the dearness allowance with the consumer price index number but the trade union leaders mistrust the capacity of the index to reflect correctly the rise in cost of living. The reasons advanced by them are: (a) wages lag behind prices when they are rising and (b) the index usually shows a smaller change in cost of living than the actual change in prices. It is therefore suggested by the labour leaders that the consumer price index numbers should not be used in the fixation of dearness allowance. This aspect of the problem has been examined from time to time by the wage boards set up by the government for different industries.

Table II shows that wholesale prices over the period 1959-65 rose, with the exception of 1960, by as much as the consumer prices. During the last two years, we experienced a sharp price increase, especially in the food index. The effect of the increase in the prices of different types of goods and services on consumer price index number is naturally affected by

the weights of the various items. It would be seen from Table III that the working class families spent as much as 68 per cent of the total expenditure on food while their monthly income per capita was as low as Rs 20 as revealed by the Family Living Surveys conducted during 1958-59 among industrial workers. It is obvious that the consumer price indices are sensitive to changes in food prices. The present inflationary pressure, as shown by these indices, centred in the movement of prices in food. The fluctuations in the prices of durable goods have a relatively lower effect. As a result of the rise in prices, the real earnings of the workers showed a general decline (see Table IV) although there is substantial increase in money earnings. The main problem is that the increase in money wages should not be allowed to be eroded by the rise in prices. Perhaps, it would be advisable to pay a part of the wages in kind or a system may be evolved so that the worker is able to buy necessities of life at reasonable prices.

TABLE II

INDEX NUMBERS OF WHOLESALE PRICES AND CONSUMER PRICE INDEX NUMBERS

Item	1959	1960	1961	1962	1963	1964	1965
(A) Wholesale Price Index Numbers (Base: 1958=100)							
General	104	111	113	115	119	134	145
Raw materials	104	121	129	120	120	136	158
Finished goods	101	111	116	117	119	121	131
Farm products	106	107	107	112	118	138	148
Textiles	101	116	123	121	122	125	135
(B) Consumer Price Index Numbers (Base: 1958=100)							
All items	104	106	108	112	115	131	143
Food	105	106	106	110	114	131	145

Source: Monthly Bulletin of Statistics (UNO).

Inflation in prices may result from the side of demand or from the side of cost or may contain a mixture of both these two elements. It is observed that there is a rise in prices first and the increase in wages follows. It appears that the solution does not lie in freezing the wages but in tightening up the price control. The market mechanism needs to be adjusted so that scarce commodities may have a fair distribution among the consumers. The lasting solution lies in increased production and productivity. It is relevant here to quote the guideline of wage adjustment formulated by the Council of Economic Advisers in the United States: "The general guide for non-inflationary wage behaviour is that the rate of increase in wage rates (including fringe benefits) in each industry be equal to the trend rate of overall productivity increase. General acceptance of this guide would maintain stability of labour cost

per unit of output for the economy as a whole—though not, of course, for individual industries."

Thus the annual gain in real output may result in the form of increased wages without a secular rise in the general level of prices. Therefore, it is the most important task for the trade unionists and the employers to reach agreements for the determination of wage levels on the basis of productivity and if necessary the government should intervene to bring about such an agreement on a tripartite basis.

TABLE III

AVERAGE MONTHLY INCOME AND EXPENDITURE OF WORKING CLASSES IN 1958-59

Centres	Monthly income per family (Rs.)	Monthly consumption expenditure per family (Rs.)	Percent- age of food to family consumption	Monthly income per capita (Rs.)	Monthly expenditure per capita (Rs.)
Andhra Pradesh					
i) Hyderabad	106.26	134.77	58.10	19.90	25.83
Assam					
ii) Doom-dooma	97.78	100.79	66.45	22.70	23.41
Bihar					
iii) Jamshedpur	204.97	168.41	56.48	42.87	38.91
iv) Jharia	100.63	89.29	64.24	34.22	34.96
Delhi					
v) Delhi	123.69	120.96	51.07	35.78	39.04
Gujarat					
vi) Ahmedabad	152.10	149.87	57.52	39.92	42.67
Kerala					
vii) Alleppey	78.23	95.94	61.61	14.06	17.49
Madhya Pradesh					
viii) Indore	116.34	123.96	55.84	25.28	28.42
Madras					
ix) Madras	115.20	146.43	57.19	23.39	31.07
Maharashtra					
x) Bombay	141.92	131.60	54.83	50.74	55.86
Punjab					
xi) Amritsar	99.01	111.23	56.32	29.08	34.64
Uttar Pradesh					
xii) Kanpur	94.03	95.02	53.73	29.17	33.65
West Bengal					
xiii) Howrah	106.92	91.93	62.59	36.79	38.11
xiv) Raniganj	99.61	80.75	67.50	38.53	36.78
xv) Darjeeling	95.26	99.43	66.68	19.97	20.92

Source: Indian Labour Statistics

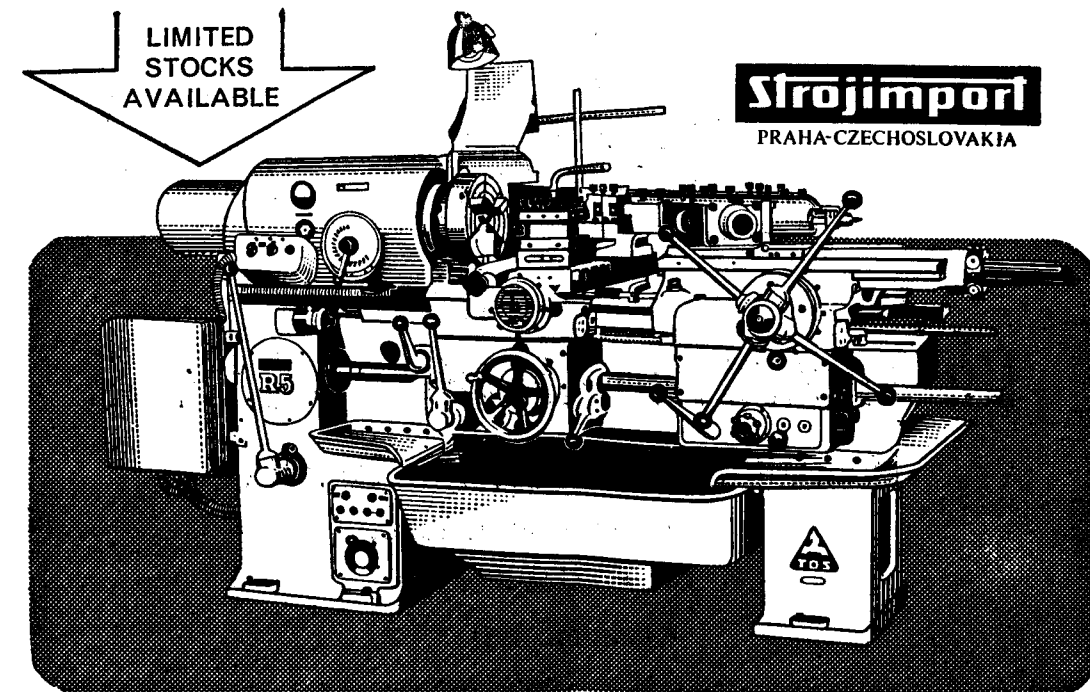
TABLE IV
REAL EARNINGS OF FACTORY WORKERS

Item	1956	1957	1958	1959	1960	1961	1962	1963	1964
Index of money earnings on base 1956=100									
linked with index on base 1951=100	115.4	119.2	119.4	123.8	135.8	138.8	143.9	145.3	149.6 (E)
Index of real earnings on base 1956=100									
linked with index on base 1951=100	115.4	112.8	108.1	107.5	115.0	115.7	116.2	113.9	103.3 (E)

(E) Estimated--

N.B.: The above figures exclude those for railway workshops and groups of industries seasonal in nature consisting of Food, Beverages, Tobacco and Gins and Presses.

Source: Indian Labour Journal—June, 1967.



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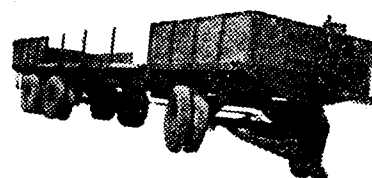


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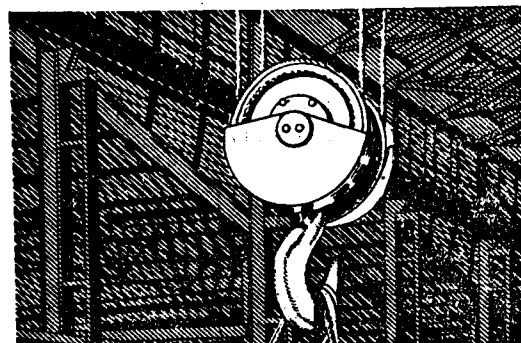
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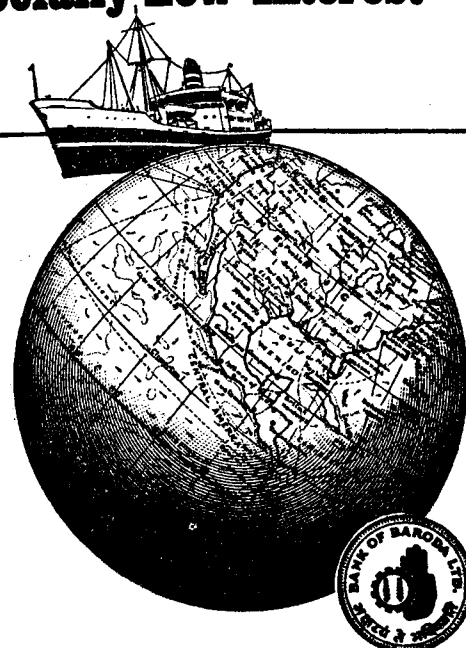
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FROM THE CAPITAL'S CUPBOARD

Food Subsidy to Go?

THE LAST word on the question of food subsidy has not yet been said, although the chief ministers at their recent meeting in New Delhi unanimously favoured its continuance on the present scale for another year. It seems certain that the subsidy will be brought down substantially from the existing level of Rs 130 crores a year. The budgetary position is so difficult that subsidy of this order cannot be sustained any longer. With the return of the Deputy Prime Minister, Mr Morarji Desai, from his tour abroad, the Finance Ministry in consultation with the Food and Agriculture Ministry has been examining the question of reducing the subsidy.

The current thinking in both the ministries is that while subsidy in the case of wheat should be totally withdrawn, milo and coarse grains should be subsidised to a much lesser extent than at present. The Finance Ministry considers that a reduction of about Rs 40 to Rs 50 crores in food subsidy is essential as some of the assumptions underlying the current year's budget have not turned out right. Revenue receipts, especially the realisation from customs duty, have been far below expectations. These shortfalls can be made good to some extent by drastic reduction in the food subsidy. Otherwise, the government will have to go in for large deficit financing which, in the Finance Ministry's view, will cause a much greater increase in prices than the withdrawal of or reduction in food subsidy will entail.

REVISED TARGET FOR AID

The Government of India has more or less decided on its approach to the various problems that will come up before the second UNCTAD. As regards the volume and terms of aid to developing countries, it will point out that the advanced countries have failed to provide one per cent of their GNP as aid, which they had accepted as a minimal obligation. In 1965, the net transfer of resources to the developing countries accounted for only 0.65 per cent of the GNP. This country will, therefore, urge the well-to-do countries to fulfil the target of one per cent aid and also to redefine the target so as to exclude private capital from aid contributions.

It would emphasise the need to (a) release resources through disarmament for developmental purposes, (b) bring about expeditious and adequate replenishment of the IDA funds, (c) establish a link between development finance and international liquidity, and (d) the untying of a portion of aid to facilitate imports by developing countries from one another. As regards the test of performance of the economy of the developing nations, on which aid-giving countries are placing increasing emphasis, this country will suggest that the test should relate to the project for which aid is given. If it has the approval of a majority of the developing countries, a proposal that debt-servicing be suspended for a reasonable period of time may also be mooted.

Although our country may not gain much from the scheme of supplementary financing, it will generally support it as it would benefit other developing countries. Besides, this is the only concrete scheme that has emerged from the first UNCTAD. We would however urge that unforeseen increases in import expenditure should be brought within the scope of the scheme as much as unexpected shortfalls in exports. This country will also favour the idea of a payments union to help developing countries financially to overcome temporary imbalances which may arise in the preferential expansion of their trade. While our country has welcomed the creation of a new monetary asset by providing Special Drawing Rights to members of the IMF it will focuss attention at the UNCTAD conference on the

need to ensure that the scheme does not discriminate against developing nations.

SECOND UNCTAD

As our country is busy preparing to play host to the second UNCTAD early next year, many developing countries are assailed by doubts about the earnestness of the international community to implement such of those recommendations of the first conference as are beneficial to them. The most important recommendation, from their point of view, was the one relating to commodity agreements and the removal by the advanced countries of tariff and non-tariff barriers to the import of primary products from developing countries. A review of the position by the developing countries, specially undertaken in connection with the meeting of the Group 77 now being held at Algiers, shows that the progress in the implementation of the recommendation on primary products has been "very unsatisfactory". The following summing up of the situation in the review makes disturbing reading:

"In spite of the recommendation that commodity agreements should be concluded on as many commodities as possible, since the first UNCTAD agreement has been concluded only on tin, and that too was only a renewal of the agreement which existed before. Efforts to renew the International Sugar Agreement and to conclude an agreement on Cocoa have not so far been successful. The developed countries have gone back on a number of recommendations of the first UNCTAD on primary commodities, which has been the main factor contributing to the failure of the international community to conclude international agreements on even those commodities which have been identified by the UNCTAD as causing grave concern".

"As regards the recommendation on the removal of barriers there has been sporadic action by individual developed countries resulting in the removal of some of the barriers, but no concerted effort has been made by developed countries to implement the relevant recommendations of the first conference. The Kennedy Round Trade Negotiations left a number of tariff barriers intact and did not even deal with the question of non-tariff barriers to the export of primary commodities from developing countries."

A NEW CONFERENCE OF AMERICAN SHIPOWNERS

There is concern in shipping circles in this country about the move of the US Federal Maritime Commission to promote a new conference of American shipowners only. Those foreign shipowners who are willing to submit to the directives of the commission may be allowed to join the new conference. This will mean disruption of the existing India-UK-USA conference and will lead to a monopolistic hold by the new conference over maritime shipping to these countries.

The Governments of India and the UK are contemplating joint action to thwart the move of the commission. As a first step, the two countries will send separate protest notes to the US government against the proposal to form an exclusive conference of American shipowners. They consider this to be discriminatory and as a covert move by the US Federal Maritime Commission to extend its jurisdiction over other countries.

The UK government has taken a much more serious view of this development as it has a higher stake in maritime shipping than this country has. It is reported that Britain will not hesitate to take the strongest retaliatory action if a new conference is promoted by the commission; it may enact legislation to prevent the vessels of the new conference from operating in British ports.

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WINDOW ON THE WORLD

Focus on Belgium

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I TRADITIONAL INDUSTRIES LIMIT GROWTH

LONDON:

BELGIUM'S REAL GNP advance this year is expected once again to fall short of the country's comparatively low 3.4 per cent average annual growth record of the past 20 years, the lowest rate of any member of the European Economic Community. The preponderance of traditional, slow-growth industries such as coal, steel and textiles has been hampering postwar progress, and the current Europe-wide business slowdown is aggravating this structural problem. Belgium is, nevertheless, gradually diversifying its economic structure, aided largely by foreign investments, and is therefore likely to enjoy rapid economic growth in coming years.

The limits of the economy's growth potential in its existing industrial structure became apparent during the prolonged 1960-64 boom. The growing demand on resources which followed deficit budget spending, rapid export expansion, and rising foreign investment, outstripped Belgium's productive capacities, largely because much of the existing capacity was in traditional rather than in growth industries. The combination of deficit spending and a weak structure caused inflation to become increasingly serious as wages rose 18 per cent and wholesale prices 9.5 per cent during 1963-64. Faced with a threat to Belgium's financial stability, the government was compelled to impose from the beginning of 1965 fiscal and monetary restraints to slow demand.

Problems Accentuated

Since then, the economy has turned sluggish: real GNP growth has declined to an average three per cent annual rate, compared with over five per cent in the boom years; industrial production has registered no significant advance for two and a half years and unemployment has risen to about double its 1964 level. Although inflationary pressures (particularly on consumer prices) began to subside in the second half of 1966, the slowdown has, for three reasons, accentuated rather than eased, Belgium's problems.

It is now more difficult to absorb the additional numbers thrown out of work by the continued closing of inefficient coal mines. This has intensified the "distressed area" problem and is the main cause of the steady rise in unemployment since mid-1964.

Business profits fell in 1966 as growth in sales leveled off. Excess capacity emerged in a number of industries and, despite a further 9.8 per cent increase in wages, the government imposed a freeze on manufacturers' prices. This profit squeeze discouraged businessmen's incentives to invest and limited their ability to finance new investments from internal cash flow.

Credit restraints raised the cost and limited the availability of local investment funds, particularly since the government's financing needs remained substantial. On top of this, the government raised certain taxes this year in the hope of curbing a widening budget deficit even though the stagnating trend of factory production and the higher unemployment level seemed to call for an expansionary fiscal policy. However, in line with the world-wide easing of money and credit, the Belgian central bank lowered the discount rate, thrice in the first six months of 1967, thus creating much easier monetary conditions.

Mr. Paul Vanden Boeynants, the Belgian Prime Minister,

justified the price freeze by arguing that the re-establishment of profits should be sought not by increasing sale prices but by cutting costs, rationalisation, research and the development of new products. This argument strikes me as disingenuous. The inflationary rise in prices had been started by deficit government financing. In such circumstances, companies can pass on their rising costs in higher prices to consumers because the government has created excess demand. If the government had maintained a stable currency, firms faced by higher costs, whether from suppliers or from wages, could not have passed them on. Competition would then have forced the inefficient to rationalise and the inefficient to disappear. In those conditions had demand flagged, a judicious expansion of credit would have enabled demand and profits to rise and maintained incentives to invest. Price freezes and wage pauses can offer only a temporary respite. The real way to keep prices and costs down is to combine the enforcement of competition with realistic and timely credit control, because this leads to expanding markets, expanding investment, and increased productivity of labour and of capital, which is the only realistic way of exerting downward pressure on costs and prices.

Belgium's sluggish performance is, as I have said, due essentially to the predominance of the traditional industries. The secular decline of coal mining, iron and steel, certain metal manufactures and cotton textiles limits possibilities of faster growth. Simultaneously, slow economic growth tends to impede Belgium's industrial transformation by holding back the increase in demand required to encourage enlarged investment in such expanding industries as chemicals, electrical products, and transport equipment.

II

GOVERNMENT SUPPORTS FREE ENTERPRISE

The Belgian government appreciates the need for investment but, unlike too many contemporary governments, it recognises that the most productive investment does not come from imposed bureaucratic choices, largely determined by political or ideological considerations, but springs from the appraisals that businessmen make of profit possibilities. Mr Vanden Boeynants recently made this clear in a striking speech in the course of which he declared: "In a market economy, it is not for the government to define what projects can be carried out or not, but rather to create the framework, within which initiatives can be realised by virtue of the necessary stimulants. It is essential, therefore, that private initiative and the action of the public authorities, should be closely integrated." The Prime Minister seems to have been fortified in this view by his experience of government attempts to goad Belgium's private enterprise into increased investment. He recalled that special measures passed in 1959 had, by 1965, produced B. Frs. 126,000 million of new investments, but that the results had, on the whole, been disappointing, because the granting of assistance "without sufficiently rigorous criteria" had led to prolonging the life of a number of enterprises in traditional industries incapable of further worthwhile expansion. The law of July 17, 1959, had not produced any fundamental change in Belgium's industrial structure, because no less than 41 per cent of government aided investment had gone into the steel sector, 25 per cent into engineering, and only 10 per cent into chemicals. The government grants mostly went to expand increases in existing capacity rather than on innovations.

Mr Vanden Boeynants implied that the government had digested this lesson. Henceforth government aid would be "selective", which he defined as "essentially temporary". The

government would offer no subsidies that would keep the obsolescent alive, impede adaptation and innovation, and lead to the artificial maintenance of non-competitive enterprises. Aid would certainly be given to sectors in recession but solely to limit the social problems arising from a phase of transition from one sector to another or from one company to another. Immobility must be discouraged, mobility encouraged. If this were not done, the Prime Minister said, the development of dynamic sectors would be held back because they would have to carry the burden of static industries or enterprises.

Turning to the prospects for Europe as a whole, the Prime Minister said that there was less reason than before to fear that concentration would lead to monopoly or impair free play or competition. He warned European heads of companies, and particularly Belgians, that they did not seem sufficiently to have acquired what he mysteriously called the "dimension reflex", which, from the context, I judge to mean that he considers that they prefer to remain small. He went on to assert that, in consequence, it was not surprising that nearly all mergers and concentrations in Europe had originated in American initiative. The Americans, he said, had been quicker than Europeans to grasp the enormous possibilities that followed the creation of a common market of 180 million people. "Let this be a lesson.....and a spur to the establishment of European and world-wide companies".

Disappearance of Individualism

The Prime Minister cryptically added that "the time of individualism above everything is past". Here, judging again from the context, I deduce that he meant that the time of the family firm is past, for he went on to quote a French economist who had written that "in companies based on tradition, the virtues are stability, independence and the preservation of heritage. In preserving these principles, adaptation, innovation, growth and even, sometimes, profit are sacrificed. The fear of risk inhibits aggression in seeking out new markets. The internal structures of such companies are strongly hierarchical. There is competition in recruitment and in supplying but monopoly in selling and in servicing. Modern management adopts a precisely opposite policy."

While I support Mr Vanden Boeynants' approval of concentrations and mergers, I was (for reasons outlined here in "Can Small Firms Survive?" on July 21) glad to see that he too offered reasons for believing that small and medium sized firms continue to have an economic justification—providing that they specialize in fields adapted to their size. As I brought out in my report on July 21, small firms can streamline their specialisation by sub-contracting and by co-operation in the division of labour among themselves; they can benefit from the existence of large concerns by supplying them with custom-built items, quality production and complementary activities.

Fortunately, Belgian industries are not limited to the relatively small national market, but can sell to the whole Common Market. This has partly offset the slow growth in domestic demand and has encouraged a number of foreign investments in growth industries. In addition, Belgium's business fluctuations are influenced by business conditions in the other member countries of the six-nation Common Market.

This close economic relationship is due partly to Belgium's central location within the Common Market and partly to the country's tradition of international business. The great weight of Common Market developments on Belgian business conditions is due to the economy's relatively small size (\$17,500 million GNP) within that of the Common Market (\$320,000 million GNP) as a whole.

Belgium's foreign trade is particularly sensitive to developments in the Common Market, which in 1966 absorbed almost two-thirds of the country's \$6,800 million of exports. Since

these exports represented about 23 per cent of GNP, the Belgian economy as a whole is extremely dependent on fluctuations in such large markets as West Germany, France and the Netherlands. Thus, Belgium's own business slowdown last year was accentuated by the onset of West Germany's recession, as well as by the slowdown in the UK, another major market for Belgian goods. Observers do not expect the Belgian economy to break out of its present stagnation before business picks up in the UK or West Germany later this year or next.

Close trade relations with the other EEC countries also makes Belgium's balance of payments sensitive to competitive pressures and to differential wage and price developments within the almost tariff-free EEC, so much so that increased competition and internal inflation were major factors behind the government's fiscal and monetary restraint in 1965-66.

On the other hand, since Belgian tariffs were much below those of West Germany, and even more of France and Italy, Belgian industry reaped substantial advantages from the EEC's gradual internal tariff reductions since 1958. These reductions, plus the rapid economic growth of the other Common Market countries during the early 1960's, helped expand Belgian exports 69 per cent between 1962-65. Transport equipment and chemicals secured the biggest gains.

Looking ahead, continued export gains from the expected resumption of growth of the other EEC countries should remain the major expansionary force of Belgium's development, but since West Germany's advance over the next few years is likely to fall short of its spectacular pace between 1958-65, the demand impulse from West Germany to Belgium may prove somewhat less powerful than before. But the Common Market's overall growth will probably exceed Belgium's potential, so that a relatively more rapid growth of export demand will continue to provide significant stimulus to Belgium.

III

FOREIGN INVESTMENT WELCOMED

Foreign investors have concentrated on Belgium as a good centre from which to supply the other EEC countries. The Belgian government offers generous incentives to both Belgian and foreign investors to set up new factories and to convert existing ones, especially in the distressed areas affected by the closing of coal mines. New investment measures recently enacted include tax rebates and other incentives, creation of a permanent Bureau for Foreign Investment, and a \$100-million fund to supplement existing investment subsidies for economic expansion and regional development.

An investor in a development area can receive premia or interest subsidies equivalent to 25 or 30 per cent of his investment in fixed assets and, in some instances, he need put up only 25 per cent of the necessary funds. Normally, however, foreign subsidiaries are expected to put up one-third to one-half of the investment in fixed assets, the remainder being financed by Belgian banks and government institutions for periods of ten years or more. Belgian banks, which may lend for any length of time, are usually able to accommodate this type of financing.

The government's friendly attitude towards foreign investment—combined with Belgium's strategic location, its excellent port facilities on the English Channel, and the emergence of Brussels as the EEC capital—has succeeded in attracting foreign investors, despite the economy's relatively slow growth. Between 1959-66, the US firms alone accounted for new investment totalling an estimated \$1,000 million. The book value of the US direct investment is reckoned at about \$700 million. Many of the new foreign investments are concentrated in the

Antwerp-Ghent-Brussels triangle. Antwerp is emerging as Europe's most important petrochemical centre.

It is difficult to exaggerate the impact of this continuing foreign investment inflow. Without it, Belgium's economic slowdown might have slid into recession, the shift away from the traditional industries would be much slower, and the trade balance would not have benefited from the rapid export growth in chemicals, electrical products and transport equipment. In

To Expand or Not to Expand

E. B. BROOK

VIENNA:

THERE APPEAR to be at least two contradictory tendencies in Europe at present, the tendency, mentioned in an earlier article, of the Common Market and of the EFTA to develop within and contract upon themselves and of Europe to be able to think and plan big. One explanation seems to lie in the fact that the restrictive tendency is the line adopted by governments as against the expansive mood of large corporations and public authorities.

The Market's tendency to be exclusive was indirectly re-emphasized recently when, on an official visit to Austria, the French Prime Minister turned a deaf ear to hints that Austria would appreciate a helpful nudge from Paris in achieving association with the Common Market. In a speech, before he arrived, M. Pompidou had remarked that it was not altogether in keeping with the Market's characteristics to admit a number of associates of various types and with various requirements. This was a cold douche not only for Austria but also for Spain and a few others.

The EFTA is less intractable, but is now in the position of laying back in internal customs-free prosperity waiting to see what happens between its principal member, Britain, and the Market. That development is going to be a very big question indeed and is now coming up urgently though any British entry to the Market remains problematical. Even the most optimistic of Britain's success in this enterprise use the phrase "eventual membership."

Technical Difficulties

One of the principal technical difficulties is the position of sterling. Very few in Europe are easy in their minds about the state of Britain's balance of payments nor are they encouraged by British predictions that membership of the Market would make that balance even worse for some time. As far as anything on this subject is certain the Market will advocate a devaluation of the pound and ending restrictions on capital movements in Europe which are largely the supports of the pound today.

Despite the intense discussions and the immense paper work that lay ahead this probably means that the economic shape of Europe generally will remain much as it is for some time to come. The general official attitude of concentrating on prosperity at home or with close economic associates is characteristic of contemporary France and West Germany and, since these are the two great economic powers of western Europe, it must be taken as the general pattern of government thinking there.

West Germany, intent on getting its economy back to its former strongly gainful activity, is considering a government spending of some £450 billion and has cut its minimum reserve bank rate five times this year. A recovery plan extending over the next four years has been presented to the Bundestag and met with support. It enables the government to raise the funds needed for the investment budget quickly. On the other hand,

time, the numerous foreign investments, together with progressive modernisation of domestic industry, should effect a sufficient structural improvement to allow a more rapid growth rate.

Sources and Acknowledgements: The framework of this article is a report in the latest Chase Manhattan Bank's "World Business", one of the best informed and readable reviews of its kind. I have also drawn on the bulletins issued by the Belgian Ministry of Foreign Affairs and External Trade.

Bonn has sharply reduced some of its minor expenses, such as government subsidies to newspapers.

Simultaneously, West Germany is laying itself increasingly open to foreign investment and making itself ever more attractive to the setting up of foreign industry. Germany's chief industrial state, North Rhine-Westphalia, is offering about £1,600 in capital aid to German and foreign industry for each new job created in its most severely depressed industrial districts. Plans for low interest loans to investors are well advanced and all firms are being allowed to offset 10 per cent of their investment against taxable earnings.

As a result, General Motors-owned Opel car plant at Bochum, a town and area which had seen over 30,000 jobs disappear by the end of last year, has already attracted some 28,000 new ones by this industrial revival policy. Thousands of areas in the Ruhr district, some with their own river docks, have been earmarked as prospective factory sites, with power and transport facilities offered cheaply. Already large foreign industrial corporations from the USA, Britain, France, Sweden and Switzerland have shown active interest and a number are well advanced in the construction of plants.

Government Measures

Similarly, France is advancing about £120 million to public and private enterprises to revive a slowly lagging economy and to prepare its industry to meet increased competition from fellow Common Market members when all tariff barriers between the six nations are eliminated next year. By June French industrial output had dropped to what was officially described as "danger level" though it was considered that average industrial growth should make it possible to achieve the development target set by the Republic's fifth economic plan for the 1966-70 period. Government measures to arrest decline and revive industrial production in France include an increase in state spending, advance payments on certain credits, easier consumer credit terms and earlier fiscal cuts for purchases of industrial equipment.

It is proper for a government to be concerned chiefly with the welfare of its own national industries. But in the context of the growing international and world-wide pattern of modern investment, financing, industrial development and employment it is, by itself, not enough. This is especially the case in the highly industrialized, crowded, usually prosperous north-western corner of Europe—the Netherlands, Belgium, the northern sector of France, the north-west of Germany and Luxembourg. At its widest, the industrial core of Europe lies within a rough semi-circle from Le Havre through Lyons, northwards to include Basel and Zurich, Stuttgart, Frankfurt and so to Hamburg.

But this area embraces six countries. Although they are all, except Switzerland, within the Market, their industries remain largely competitive and there is insufficient co-ordination of transport, labour laws, insurance benefits and other technicalities essential to the smooth running of industry with maximum speed and profit.

Industrially, this area could be one, like the north Ameri-

can complex south of the Great Lakes; in international commerce it has the unique advantage of having five major ports—Hamburg, Bremen, Rotterdam, Antwerp and Le Havre—within a compass of some 500 miles and all facing out to the Atlantic. Geographically, it is a natural area of industrial production and of commerce whose potential far exceeds its already immense achievements and unparalleled in potential and concentration.

Yet, historically, it is an area of centuries of conflicts; politically and legally, it is split into six sections. It is an area where local loyalties are stronger than almost anywhere in Europe. The five ports, instead of co-ordinating the handling of the immense industrial output of their hinterlands and their tremendous inter-port traffic, engage in the most intense competition between themselves for business and profits.

Were the almost hectic activities of these ports closely co-ordinated by their authorities—some of whom have a leaning towards such an idea—and by their governments, who appear to have none, western Europe at least could be two or three

times as prosperous as it is now.

Developments in maritime transport of oil by giant tankers and of other merchandize by standardized containers carried in specially built ships are probably showing the way. Bulk crude oil imports, especially, demand large-capacity port installations for storage and pumping and indicate almost forcibly the wisdom of setting up petrochemical industries in or near the outskirts of the ports.

Ideally, such ports should also be developed into industrial complexes. When bulk carrying can bring coking coal from the USA more cheaply than it can be produced at home it cannot be long before ports attract steel works as well as petrochemicals. Already this is happening in France near Dunkirk and in Holland at IJmuiden. It will not be long before Belgium and West Germany make similar developments. But until national industries can adapt their methods and costs to meet the changes in world trade with official support Europe will not win the full benefits of its unique opportunities in its north-west coastline.

Nuclear Engineering: W. Germany Catching Up

R. HOSSNER

R. Hossner is the editor of "Nuclear Economy"—a West German monthly published from Dusseldorf.

IN SPITE of a late start in nuclear technology in W. Germany, the country's industry has been able to catch up with many of the most advanced international standards, due to the efficiency of the country's machine building, chemical, engineering and electrical engineering industries. Today, W. Germany offers not only nuclear power stations based on international experience but has also developed remarkable new technical solutions for the construction of progressive types of reactors.

German industry has also done extensive research on such problems as the fuel cycle, the technology of radiation measurements, the production of particle accelerators, radiation protection, the utilisation of radioactive materials, radiation technology, and other areas of nuclear technology. In all these fields research and development have resulted in mature and internationally competitive solutions.

Four nuclear power stations are operating in W. Germany, and five additional ones will be completed by the end of next year. They will have a capacity of 900 MW(1). One of the progressive reactors under construction is the superheated steam reactor of the German AEG-Telefunken group, with live steam up to 500°C/60 ata(2). Its fuel elements are cooled on the outside by means of boiling water. This results in saturated steam flowing through the fuel tubes for the purpose of superheating. The construction of the fuel elements and of the reactor core are examples of modern reactor technology on which future nuclear power stations may be based.

Concentrated Efforts

The experts of the Siemens-group have concentrated their efforts on the construction of heavy water reactors. The pressure tube reactor of Siemens with cooling of carbon-di-oxide which is being built at Niederachbach on the river Isar also achieves steam conditions of modern conventional power stations. In the research centre of Siemens a pre-stressed concrete pressure vessel for internal pressures of 100 ata and operating temperatures of 300°C has been constructed and tested. Conception and method of construction, size and operating pressure are substantially different from those of previous prestressed concrete pressure vessels. Tests have confirmed that this pressure vessels can be further developed to permit even substantially higher operating pressures.

One of the most interesting German achievements in the nuclear field is the helium-cooled, graphite moderated high-

temperature reactor constructed by BBC and Krupp at Juelich. The core of this reactor consists of a large number of spherical fuel elements. These are hollow graphite pebbles containing mixed isomorphous crystals of uranium dicarbides and thorium dicarbides coated with pyrolytic graphite. In this type of reactor we find already essential features of the thermal breeder. It is characterised by the continuous circulation of the fuel pebbles.

Significant Contribution

Another line of development is represented by the compact sodium-cooled zirconium-hydride-moderated reactor (KNK) developed by INTERATOM and under construction in Karlsruhe. In addition to other promising features of the reactor, it provides a significant contribution to the development of fast breeders. Recently the safety container of this reactor was completed. In comparison with other sodium-cooled reactors the outstanding difference is to be seen in the moderator made of zirconium-hydride which is perfectly compatible with the sodium coolant.

The development of breeder reactors becomes increasingly important. The aim is to construct nuclear power stations not requiring any supplies of fissionable materials because they produce more nuclear fuels than they consume. In the nuclear research centre of Karlsruhe work is being conducted to develop a sodium-cooled as well as a steam-cooled fast breeder. Three types of thermal breeders are being developed at the nuclear research centre of Juelich: The gas-cooled high-temperature thorium converter as a continuation of the gas-cooled high-temperature pebble-bed reactor, the heavy water-thorium breeder and the molten salt reactor.

The Kieler Howaldtswerke will soon complete a German-European atomic ship. Its reactor built by Deutsche Babcock and INTERATOM became known as the advanced pressurized water reactor (FDR). Certainly, Germany is now contributing significantly to the development of nuclear engineering which is increasingly stimulated by international exchange of theoretical and empirical knowledge.

Reform of the Management System in Hungary—II

Dr JENO REDEI

IT IS an essential feature of the reform that it creates an organic link between the internal and external market. Gains deriving from export will not be separated from profits deriving from domestic sales; further the price of the imported goods expressed in terms of their actual purchasing cost will become part of the production cost. Obviously this cannot be carried into practice unless the Forint and the foreign currencies are commensurable—and on a real basis at that. A further condition is that a new economically reasonable price system must be established also on the inland market under which the effective production cost and the market value judgment (marketability) will both be taken into account. The new economic system intends to provide for all this. When the domestic prices are basically determined by economic methods, it will enable the producer to ponder where to sell his goods—whether it is more advantageous to do so on the home market or abroad. Similarly, the user will be able to decide whether to use domestic or imported materials. Such a price system and the new conversion coefficient of foreign trade will absolve the central organs from the duty of maintaining a general quota system in the imports, and also of issuing plan directives or quotas in the field of exports.

The new price system will be a producers' price system, influencing the formation of prices through economic methods—whether such prices are centrally determined or to be fixed by the enterprises. The basic economic means of influencing the prices are the following: the enterprises will have to pay 5 per cent capital charges on their fixed and working funds, further a 15 per cent social insurance rate as well as a 10 per cent wages tax on all salaries. The prices will fall into three categories: fixed prices for certain staple foods and standard raw materials; official prices (minimum-maximum prices, definition of the price of some leading goods, prices calculated according to compulsory schemes); and lastly free prices mainly for machines, components and luxury goods.

Pricing Policy

The fact, that the imported materials will be priced according to their actual purchase cost, further that the producer of export manufactures (provided that his product will conform to the market demands) may get the optimum price obtainable at the world market, will undoubtedly have the effect that the proportions of domestic prices will approach to those existing on the world market. As a matter of fact, such approach will be within reasonable limits only, as no country can adapt its internal price system "in its purest form" to the world market prices, because each country has some branches of industry which it must develop (and consequently protect through customs duties for some time), further because it has a given pattern of natural resources and carries certain social obligations (a determined social policy) all of which have to be taken into consideration.

The new price system and the uniform conversion coefficient applied on the foreign currencies will enable confrontation of the import expenditures with the domestic part of production costs, and comparison of export gains with inputs. The uniform conversion coefficient will enable the commensurability of the Forint with the foreign currency expenditures and also with foreign currency receipts. The conversion coefficient must not be differentiated according to the individual goods. Only in such a way can it be achieved that the exporters will substitute the products giving worse results with more favourable ones. Only thus will they be enabled to assess on a realistic basis in the case of imports, whether it is worthwhile to import a given type of goods or else replace it with a domestic product; lastly to choose among the various products of foreign origin selecting the best as to price and performance.

Customs duties will have an important role to play in the regulation of foreign commerce. The new customs system will make it possible to secure an effective protection for Hungarian industrial products, whilst conforming to rules of international trade. Under the new customs system, at international customs negotiations Hungary will be able to offer equivalent advantages to its trade partners and continue to grant them, subject to reciprocity, the most favoured nation treatment.

The licensing system, too, will be placed in the service of commercial-political guidance. Licensing of export and import deals will serve the purpose that the foreign trade deals according to countries should correspond to Hungary's international obligations towards them, also taking into account the export and import quotas—if any—fixed with the partner countries. The foreign trade authorities will strive to introduce a simple, and possibly automatic, licensing system in the majority of cases. (General licences will be issued; licensing regulations will be publicized a long time in advance etc.) The licensing system is to remain a tool of commercial policy, and not a method of controlling the volume of exports or imports.

Licensing System

The entire logic of the new system of economic management would be jeopardized if we were to use the licensing system for anything else but conscious and necessary guidance, in harmony with the general commercial policy. Under the new circumstances, when the state will no longer refund the difference between the production cost and sales price to the producing companies, when it will make the buyers pay the actual purchase price for the imported materials, it would be absurd to force them wholesale into un-economic decisions (by means of the licensing system or other administrative instruments), the more so as there will be no funds to compensate for the financial consequences of such decisions.

The above-listed principal tools (conversion-coefficients, new price system, customs, licensing) will all work towards profit becoming the yardstick of successful activity, also in the field of foreign commerce. Prior to every business transaction the exporting and importing company will have to weigh how it will affect its profit. Obviously it will shape both its production and sales (purchase) policies so as to come up with economical, saleable (i.e. technically improved, high-grade, attractively presented) goods on the market.

In Hungary, even before the introduction of the reform, eight mechanical engineering companies and two co-operative enterprises had been enjoying direct export-import rights. In the new system of management the number of such producers possessing direct external trading rights is likely to increase—first of all in the engineering industry. The organic link between the foreign markets and the domestic one, however, is not primarily an organizational but an economic question. The new mechanism of the economy tends to re-instate this very economic unity when creating—with the help of a new price system and the foreign trade conversion-coefficients—a direct link between the external and internal prices. It serves the same purpose when it measures the commercial performance of the enterprises by the most favourable sales and purchase prices which they achieve in the market. The fact alone that a producing enterprise may avail itself—either in its sales or purchases—of the services of a foreign trade company, will not sever the said economic link, because whether acting as a commissioner or establishing a kind of joint venture with the producer, the foreign trading company will in any case pass on the value judgment of the foreign market. The producer will get the counter-value of the exported goods, whereas the consumer will have to pay for the imported goods—in possession

(1) MW=Megawatts.

(2) ata=absolute atmospheric pressure.

of the necessary foreign currency. Obviously, under the new system it will still be necessary for the foreign trading companies to sell, respectively to purchase, some products for their own account. Although in this case the producer will not be in immediate contact with the market abroad, yet indirectly he will, as the foreign trade company will pass on to him the market trends. Knowing the market requirements abroad, the foreign trade firm will not buy the product of the home producer unless it expects to be able to re-sell it, and it will not offer more for the product than what it hopes to realize abroad—including his own profit.

The adoption of economic incentives in the domain of foreign commerce does not mean as if we wanted to leave its development and its prospects entirely to the spontaneous formation of the market conditions. Planning will remain a conscious tool in the guidance of foreign commerce.

The foreign-trade plans will be of the medium-range type. They will partly prescribe, partly recommend—for five-year periods—programmes for the development of foreign trade (exports and imports), indicating the desirable payments and trade balances, the division of trade according to the main groups of countries and principal classes of goods. In addition, the plans will list the economic and governmental means capable of ensuring these aims; they will further specify the major proportions between production, home consumption, exports and imports. The five-year foreign-trade plan will have an organic connection also with the medium-range investment projects.

The medium-range foreign-trade plans will take into account the various expected trends of the individual markets (e.g. the price trends on the selling markets, and foreseeable developmental and business policy prospects of the individual countries).

Main Advantage

Thus, the medium-range plans will constitute the most important sources of information for the exporting companies before they compile their own trade programmes. There will be no breakdown of the medium-range plans on the level of the enterprises; nor will it be necessary that the sum total of the enterprise plans should be equal with the state plan. As it is, one of the main advantages of the new system lies just there that the enterprises—knowing their own production capacities and market possibilities—are able to give a better performance than what could be planned from a centre. Still, these medium-range plans are extremely important to the enterprises because they not merely "inform" them of the central intentions, but also guide them in their activities indicating, as they will, the aims followed by the state in the domain of foreign commerce, and the means it wishes to employ in order to attain them.

The above bold system of planning foreign commerce, the licensing of exports and imports, with the simultaneous applications of the economic levers, will not hinder the reasonable economic activities of the enterprises. It will be advantageous to our trade partners, enabling them to conclude transactions, provided that their prices are competitive within the framework of international agreements. Under the new system all countries with whom we have been trading, according to the principle of the most favoured nation, will be able to compete under identical conditions.

Our western trading partners sometimes raise the objection that their business possibilities are limited by the fact that a given percentage of our trade is done with the socialist countries. The intensity of trade among the socialist countries is largely determined by the circumstance that the economies of these countries are strongly dependent on each other; also their geographical proximity make their mutual lively trade "a natural thing". Take the example of Hungary. In the period

between the two world wars the Soviet Union—rich in natural resources and lying close by—could have been a natural raw-material supplier to Hungary, the latter being poor in such resources. At the same time Czechoslovakia could have been a good market for Hungarian agricultural produce. Clearly, a mutually favourable trade should have developed between Hungary and its neighbours in finished products and machines. However, prior to the Second World War, political reasons and the so-called "cordons sanitaires" prevented the trade from developing between—say—Hungary and the USSR, or Hungary and Czechoslovakia, or from growing to reasonable proportions. Such aims were not to be realized until after the Second World War. Besides political reasons, the economic considerations play an at least equal role in the high intensity and interdependence of the trade of the socialist countries.

East-West Trade

In the years of the cold war, the socialist countries were forced into making their industries—willy-nilly—independent from the economy of the west (as a protective measure against the embargo policy) and to rely increasingly on each other's resources. Nevertheless, east-west trade was never completely frozen, not even in the bleakest years of the cold war (which shows, incidentally, the very solid foundations of this trade, rooted in the reciprocal interests of the countries). The fact that the socialist countries currently carry on a considerable proportion of their trade among each other, does not point to the existence of any major practical barrier to the extension of east-west trade. Since theoretical considerations will not provide an adequate answer to this question, it is worthwhile to examine the experience of the past years. Between 1960 and 1966 the exports of the socialist countries to industrially developed western countries increased by 9.9 per cent annually. Meanwhile their exports among themselves grew by 7.4 per cent, and the general average increase of exports amounted to 8.1 per cent. During the same period the imports of socialist countries grew by 7.3 per cent yearly. Within this figure, imports from socialist countries increased by 7.5 per cent, whilst from the developed western countries, by 10.4 per cent. As for Hungary, the corresponding figures testify to a similar tendency. Between 1958 and 1966 the annual increase of exports amounted to 11.3 per cent; exports to the industrialized west grew by 13 per cent. Imports increased by 12.1 per cent annually; imports from the developed western countries, by 14.1 per cent annually. These figures show unequivocally that trade between the eastern and western countries has been growing faster than the average.

Under the new system of economic management, naturally, we shall fulfil our obligations towards the socialist countries, deriving from existing long-term agreements. But this will be done mainly by enabling the enterprises to conclude contracts for several years ahead, covering reciprocal supplies and also industrial co-operation. Experience has shown, however, that trade between the socialist countries does not act as a brake to the progress of east-west trade. On the contrary, the stability of these markets enhances the competitiveness of the firms and enables them to expand the volume of trade with non-socialist partners, and to diversify its contents, e.g., in principle, the path of long-term agreements is open also in the east-west trade, where this practice is getting more widespread. Hungary has such long-term agreements with Austria, the United Kingdom, Italy, France, the Benelux Union, Sweden, Norway, Greece, Switzerland etc. These agreements—as in the case of Italy and France—also include industrial-technical co-operation. They, therefore, create a safe basis for eastern and western companies to sign sales and co-operation contracts with several years' validity.

Lately several long-term commercial deals were concluded by western firms with Hungarian enterprises. For instance, Hungarian companies have signed five-year contracts with Austrian firms covering the delivery of alumina, and similarly, ten-year contracts for the supply of coke. Hungarian enter-

prises are importing fertilizers and synthetic fibres from western firms also under long-term contracts. Hungarian firms have signed contracts of several years' validity with their Swedish opposite numbers covering the supply of rolled steel, deep-freeze vegetables and fruit. Such types of non-governmental contracts have the same practical effect, on the Hungarian side, as have the binding quotas in the agreements concluded by the socialist countries among each other.

When studying the expected impacts of the new system of economic management on foreign trade, consideration should be given to the aim of our reform, which is to expand and enrich trade in all respects. It is not our objective to expand business with the socialist countries to the disadvantage of the capitalist partners, or vice versa, but to achieve better results in our trade both with the east and with the west. In either sphere of our trade there are elements which could be applied with success in the other sphere. For instance, we do not want to conceal our conviction that our trade with the socialist countries could do with a lot more of commercial and marketing activity. Accordingly, we wish to underscore the inter-governmental agreements through the direct interest of the enterprises; we wish to put more emphasis on advertising and market research in the socialist countries, and intensify the direct contacts of the enterprises of the socialist camp among each other. At the same time, in our trade with our western business partners (in addition to improving the traditional sales methods) we would prefer more effective application of long-term international agreements, also covering technical co-operation, a more intensive practice of direct agreements between eastern and western firms having several years' validity, and we would wish to complete the traditional methods of trade with co-operation agreements between the producers. The new system of economic management will afford wider opportunities than heretofore, also in foreign commerce.

Often it has been our experience, for instance, that manufacturers' co-operation were hampered because our producing enterprises were not sufficiently interested in turning out new products at a fast rate. From now on, however, when the financial results of an industrial company, the bonuses of its managers and workers will greatly depend on whether they can adjust themselves technically and fast enough to the demand, and whether they can respond to it within the period determined

W. Germany: Healthy Effects of a Recession

E. F. K. HAUBOLD

WHILE INDUSTRY and trade in West Germany will certainly not remember 1967 as a year of high profits, dividends and turnover, it might well become a "record year" in a somewhat macabre sense. After 16 years of a somewhat overboiling boom, thousands of entrepreneurs had to go out of business in 1966 and 1967. From January to June end of this year, 40 per cent more insolvencies were registered as compared to the same period in 1966. Statistics show that each day an average of 25 businessmen realize that they are not in a position to meet their financial obligations. This has resulted in a sharp increase in the insolvency rate.

The misery began in 1966 when the recession drove over 3,500 entrepreneurs out of business and 14.5 per cent more bankruptcies were filed in the courts than in the preceding year. Badly hit are firms specializing in house and road construction (552 insolvencies in 1966), the textile industry (93) and engineering industries (84). Small and medium-size enterprises account for the majority of these cases that could swim comfortably along with the boom but were bound to get drowned the very moment market showed the slightest sign of a slump. According to one of the country's well-known bankers, the mistakes these companies committed were mainly: (i) insufficient capital; (ii) considerable credits at high interest rates; (iii) decreasing utilization of capacity; (iv) over-investment; and (v) lack of managerial skill.

by the market requirements, obviously the companies will be more active in looking for, supporting and carrying out, various co-operation forms serving such purposes. In 1965 and 1966 experimental systems were introduced in some industrial establishments in the field of their export production. Our most positive experiences were registered just in this field, namely that they were responding in a much more elastic manner to the requirements of the market, carrying out changes in the commodity structure faster and more dynamically than they had previously.

The socialist system of planning is constantly developing and improving. As from now, Hungary's economy will be increasingly characterized by an up-to-date economic structure. We have striven in the past—and not without results—to foster our economic relations with the countries having a different social system from ours. Now that, in order to satisfy the requirements of a more intensive development, we have put the reform of our economic management system on the agenda, we are hoping—among others—that it will promote Hungary's more active participation in the international division of labour. Through the reform we endeavour to employ economic levers in the interest of solving new, higher-level tasks. Also we intend to put these tools in the service of the national economy by directing the economic inter-connections between our enterprises—in their present complexity—into channels useful for our economy. On the level of macro-economy, however, the central planning organs will continue to be responsible for the decisions, on the basis of scientific evaluations. This will be—we hope—a useful combination: in all fields where sufficient information is available to the enterprise, decision should be left to the enterprise; on the other hand, where it is necessary to consider the higher inter-connections of the national economy or the long-term prospective growth of the economy, it is up to the appropriate organ—the central planning authority—to make the decisions.

It is an essential purpose of our new foreign trade mechanism to render our companies competitive in every respect on the markets abroad. In this way, Hungary will become a more interesting and more important trading partner for every country which is ready to grant her, the most favoured nation treatment and to her firms, the chances of a fair competition.

(Concluded)

Hard as it may be for the individual entrepreneur, the positive effects this development has on the general business climate are evident. Entrepreneurs in future will take a more sober view towards new ventures and put their business transactions on a sound financial footing.

The healthy effect that the recession however had on the workers' and employees' morale should not be overlooked. During the boom, workers knew that their employer could hardly afford to fire them as suitable replacements were not easily available. As a consequence of the new situation, the number of workers reporting sick or not showing up for duty has dropped considerably. Also, there is a reduction in coffee and cigarette breaks, with the result that labour efficiency has improved.

Realism about West Germany's changed economic situation is also reflected in Bonn's so-called "new era" in economic policy, abandoning the laissez-faire principle somewhat and adopting methods practised in Britain and the USA. Professor Karl Schiller, West Germany's Minister for Economics, has named three aspects of the government's current philosophy:

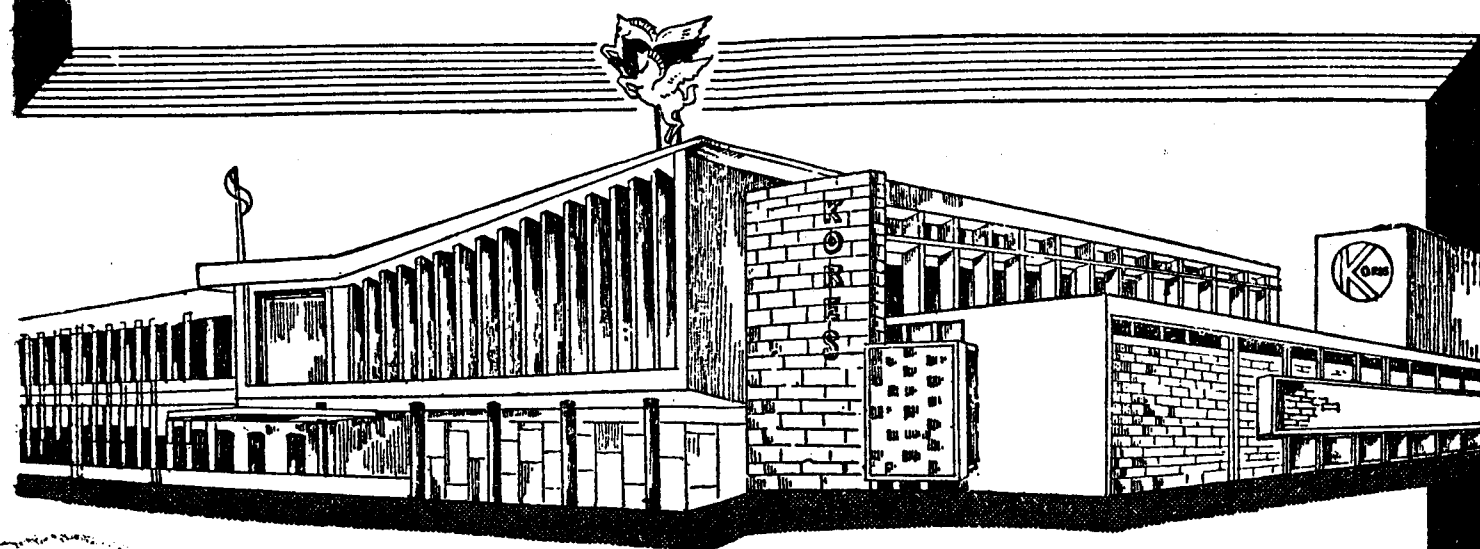
- (1) A neo-liberal market economy concept, to handle micro-economic processes.
- (2) Along with this, a policy of steering macro-economic

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relations originally thought out by the British economist John Maynard Keynes, and subsequently modified for use in the United States.

(3) Blended with the above two approaches, modern welfare policy.

Says Social Democrat Schiller: "This synthesis is in my opinion the only convincing answer to the economic and social challenge now facing the Federal Republic. After a steady period of strong economic growth and full employment, we had, since mid-1966, for the first time since World War II a sharp economic decline, with decrease of overall economic growth, unutilized production capacity and clear under-employment. During the last winter we reached an unemployment rate of 3.1 per cent. Now we have somewhat more than two per cent, which is still unusual for an economy accustomed to no unemployment. Industrial production in 1967's first quarter was 5.5 per cent lower than a year earlier."

It is against this background that one has to see the reason for Bonn's new law—recently passed by the Bundestag—to promote stability and economic growth. It equips the government with an enlarged set of improved instruments, and for the various government agencies it represents the legal basis for effective general guidance of the economy, going beyond traditional monetary and credit policies. The new law's provisions are five-year planning of government expenditure and revenue, annual revision of the plan as a public "guideline", deficit spending by the government in slack times and accumulation of public funds as a reserve or for repayment of deficits during better times.

Optimistic Outlook

The majority of business leaders the author met on a recent trip to West Germany are confident that by early 1968 the upward trend in the country's economy will gain momentum again, although on a somewhat smaller scale. The business situation has not deteriorated further during the summer but has been consolidated. The government's financial and counter-cyclical policy has induced a change of sentiment, clearly reflected by the rally in the stock market. In the meantime, there is increasing tangible evidence of a gradual recovery. The danger of the down-drift gaining momentum, threatening in the second quarter of the current year, has been averted. Opinions expressed recently in many branches of industry and commerce have given rise to renewed confidence in assessing future trends. Following the conspicuous success of the government's first pump-priming action, entailing capital spending of DM 2,500 million, hopes are running high in anticipation of the next extraordinary budget, which is likely to be more than twice the size of the first one. As the clouds pass, the entrepreneurs are likely to be bolder.

Some executives refuse even to name the present stage of the economy as a recession. They would rather describe it as a "slump" or a structural crisis. Be that as it may, there is widespread feeling that the crisis resulted in a number of changes in West German economy which are necessary if the industry is to stay competitive in the European and world markets.

Firstly, there is increased awareness that the smaller industrial units have to merge into bigger units if they want to survive in the large markets. The automobile and electrical goods manufacturers did this over the past few years with remarkable speed, and it is now the coal and steel industries which are discussing proposals for mergers in order to utilize the existing capacity to the maximum extent possible.

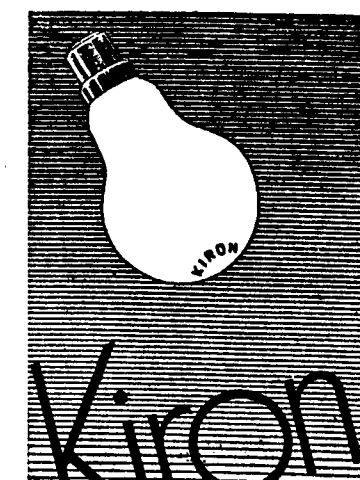
West Germany's giant steel producer Thyssen-Huette AG announced sometime ago its planned merger with Huetttenwerk Oberhausen AG (HOAG). The merger will have to be approved by the European Common Market Commission in Brussels. A spokesman for Thyssen said his firm would apply for permission to merge with Huetttenwerk Oberhausen "as soon as

possible". If the merger is approved, Thyssen, with the exception of the nationalized British steel industry, will be the largest European producer of steel. It will produce about 10 million tons of crude steel annually, and will employ about 110,000 persons. At present, Thyssen alone produces 22 per cent of the total West German steel output. The merger with Huetttenwerk Oberhausen is expected to make possible considerable rationalization and cut in investment expenditures.

Mergers in the Air

To Thyssen's present capacity of 8.5 million tons of steel, HOAG will add another 2,500,000 tons; combined annual sales may amount to DM 8,000 million, taking the new enterprise to the third place among the West German corporations, with only Volkswagen and Siemens ahead in sales. Other mergers are in the air. Hoesch, the eighth largest German steelmaker, last year absorbed Dortmund-Hoerder Huetttenunion. Until recently, Krupp was believed to be considering merging with Thyssen; now Klockner is said to be a potential Krupp partner. And two more companies, Salzgitter and Ilseeder Huette are eying each other as possible mates.

With a crude steel production of roughly 40 million tons last year, West Germany's steel industry ranks fourth in the world after the USA, the USSR and Japan and contributes about 10 per cent of the world production. The leading steel producers are, apart from the Thyssen group which heads the list, the Hoesch-Hoogovens group, Fried. Krupp, Kloeckner and Mannesmann, in that order. The above-mentioned merger of Thyssen with HOAG indicates a significant trend. Compared with American giants such as US-Steel, Bethlehem and Republic, German steel firms are still relatively small in terms of crude steel capacity. Faced with rising labour costs and increased investment for research and new production techniques, these companies have to rationalize considerably and to cut investment expenditure. Merging into bigger units is one way to solve the problem, the other being marketing syndicates where



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the members enjoy the advantages of concentration without sacrificing their entrepreneurial independence.

To stay competitive with industrial giants in other European countries and the USA, West German industry must step up its expenditure for research and development. One of the pace setters in this field is Siemens AG, the country's biggest manufacturer of electrical goods and the biggest private employee, with over 250,000 on its payroll. Siemens is now spending DM 500 million or almost 7 per cent of its turnover annually on research.

Apart from research and development, industry is introducing new techniques of production with a view to producing more at less cost per unit. One of the much talked about examples is the recent introduction of the continuous steel casting process at the Mannesmann steelworks. Mannesmann, world famous for steel and pipes, is now operating the world's biggest continuous casting machine. Crude steel is cast in slabs up to 83 inches wide and 10 inches thick. The annual capacity of the plant is roughly equivalent to 1.2 million tons. This means that Mannesmann is the first company to take up continuous casting on a large-scale in its iron and steel works. The continuous casting plant takes the place of a number of traditional facilities, including casting floor, casting pits, soaking pits and slab rolling mills. The waste is less than in the conventional process and the quality of the steel is improved. An LD steel plant working together with a continuous casting machine such as the one now in operation at Huckingen assures an almost continuous flow of operation. The engineering and design work has been carried out jointly by Mannesmann and DEMAG Strangussstechnik GmbH.

The larger companies are increasingly realizing that conservatism does not pay off in the long run. That is why the reorganization of the Krupp concern is the most discussed topic in the Ruhr these days. The Krupp organisation is going to

dispose of a number of companies, supermarkets and hotels which were being kept by the late Alfried Krupp out of his very strongly felt social responsibility towards his workers rather than their profitability. It is significant that the company's new chief executive, Mr G. Vogelsang is a chartered accountant who is bound to keep profitability as the prime objective in administering it. Krupp, after conversion into a public company and the creation of a foundation, is now having a supervisory board of directors appointed last spring; it consists of West Germany's most capable financiers and industrialists drawn from every branch of business life. Dr Hermann J. Abs, Chairman of the Deutsche Bank, will be the chairman of the supervisory board, whereas Mr Vogelsang will be the managing director. Handpicked by Mr Berthold Beitz, Alfried Krupp's plenipotentiary, Mr Vogelsang has won a high reputation as an expert in financing and cost control. Over the last few years, he has been a member of the board of directors of Mannesmann AG.

It can be said with some confidence that the recession that West Germany is experiencing at present has already brought about a number of developments beneficial to both producers and consumers. Monetary stability, seriously endangered a year ago, has been achieved in the meantime. The cost of living index, widely regarded as the indicator of monetary value, has scarcely advanced in recent months. It is now about a point higher than a year ago, whereas up to early 1966 the annual upturn was almost five per cent. Price stability is likely to be maintained in the second half of the year.

Last year, the average German household of 4 persons had a net income of DM 819 per month (roughly Rs 1600), a 10 per cent increase over 1965. Provided the goods offered are attractive, prices low and if he is convinced that he does need the goods, the consumer is willing to spend. The latest economic trends show that everything is set for a fresh take-off of the West German economy.

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Trade Winds

CHANGE IN IMPORT POLICY?

VOICING DISAPPOINTMENT over the export performance during the 12 months following the devaluation of the rupee last year, the Commerce Minister, Mr Dinesh Singh, indicated at the Board of Trade's last meeting here on October 3 that the import policy might soon be revised with a view to linking raw material imports with export earnings. Mr Dinesh Singh is understood to be thinking in terms of abolishing the present system of allowing the priority industries to import 100 per cent of their raw material and component requirements not available indigenously. Instead, only units showing a certain standard export performance may in future be allowed this concession. The others may be required to apply for import licences as actual users as in the past. The Commerce Minister disclosed that exports during the 12 months to May 31, 1967, declined by \$190 million as compared to the corresponding period a year ago. Although the two successive droughts, the recession in the European economies and the fall in the world prices of several of our exports were primarily responsible for this decline in our exports, the Commerce Minister opined that the export performance of industry in response to the post-devaluation liberalised import policy had left much to be desired. The new policy, he observed, would be continued unchanged over a period of time so that frequent changes in the policy did not disrupt our foreign trade. The Commerce Minister's criticism of the liberalised import policy was shared by several members of the Board.

The proposal of the Commerce Ministry to abolish the Board of Trade and to integrate its functions with those of the Import-Export Advisory Council came in for severe criticism at the hands of several members who pointed out that the Board of Trade, as a compact body, ought to be retained for exchange of views on trade matters. The Commerce Minister promised to have a second look at the proposal.

Opinions differed sharply on the alleged re-export of goods imported from India by some East European countries. Mr Dinesh Singh, however, felt that there was a lot of exaggeration in the talk about this "switch trade". Agreeing that the increase in the rupee trade should not be at the expense of exports to our other traditional markets, he felt that the criticism against rupee trade was based on ideological considerations. The rupee trade, he asserted, was profitable for the country and everyone should co-operate in increasing it. Mr L. N. Birla pointed out that our export trade with Africa was suffering because of the insistence by the customs authorities on execution of a bond by exporters that the goods exported by them would not be diverted to Rhodesia or South Africa. Similar undertakings, he added, were insisted upon in the case of exports to east European countries also. No exporter, Mr Birla observed, could give such guarantees. In the interest of increasing exports of jute goods, Mr Birla called for reduction in the export duty on these products and suggested that in providing export credit, banks should take the cost of production as the basis instead of sale price.

SELF-SUFFICIENCY IN FERTILIZERS BY 1972-73

A spokesman of the Ministry of Petroleum and Chemicals conceded recently that the country might face a significant shortage of naphtha in 1971-72 if all the fertilizer manufacturing projects based on this raw material, which have already been licensed, go on stream according to their present schedules. He disclosed that the Ministry was already seized of the question of how to meet the situation in such a contingency. Three alternatives were being considered: (i) enlarging of the crude refining capacity, (ii) import of naphtha, or (iii) import of liquid ammonia. If it became necessary to import naphtha, the spokesman observed, these imports would be effected by the Indian Oil Corporation which would sell the product to ferti-

lizer plants on the basis of a pooled price for the imported as well as the indigenously available supplies. The policy in regard to import of liquid ammonia, the spokesman emphasised, remained as it were; any proposal envisaging setting up of a fertilizer unit based on liquid ammonia could be considered on its merits.

The spokesman revealed that the country would be in a position to meet all its requirements of nitrogenous fertilizers from indigenous sources by 1972-73. By this time, the installed capacity would have gone up to 3.31 million tonnes. The demand in that year was estimated around 2.8 million tonnes. At present the country has a capacity to produce nearly 0.68 million tonnes of nitrogenous fertilizers. Capacity to the extent of 0.21 million tonnes is expected to be added within the next few months. By 1970, capacity to the extent of 2.16 million tonnes would have been established; 1.28-million tonne capacity is currently under construction. Several projects which have already been licensed or for which letters of intent have been issued are expected to go on stream between 1971-72. These include the Mangalore, Goa and Kanpur projects (for which industrial licences have already been issued) Haldia, Ghaziabad and Kandla schemes (for which letters of intent have been issued) and the Trombay expansion programme. The spokesman revealed that three more projects were being considered by the government. These were: (i) Tata's proposal for setting up a chemical complex at Okha; (ii) Birla-Kaiser project at Mirzapur; and (iii) the Atlantic Richfields offer of collaboration with the government for a plant in Andhra Pradesh. The proposals of Tatas and Atlantic Richfields envisage import of liquid ammonia, that of the former for a limited period.

The spokesman said that there was no proposal to extend the time-limit for the completion of negotiations for setting up fertilizer plants under the 1965 concessions beyond December 31, 1967. Under these concessions, any manufacturer who takes out an industrial licence by December 31, 1967, for putting up a fertilizer plant will have the freedom to market his products without price control for a period of seven years from the start of commercial production, subject to the government opting to buy 30 per cent of the output at negotiated prices for distribution through its own channels in areas which may not get satisfactory supplies otherwise.

FERTILISERS FROM GREECE

The State Trading Corporation of India has entered into a bilateral trade agreement with Greece. Under the deal Greece will supply to India more than 70,000 tonnes of phosphatic fertilisers valued at Rs 4.9 million. In return India will ship to Greece house service meters, wooden electric poles and aluminium conductors. With this, trade between the two countries, which currently amounts to Rs 1 crore only, will go up to more than Rs 8 crores.

DIRECT TAXES ADVISORY BODY

The Ministry of Finance has reconstituted the Central Direct Taxes Advisory Committee. The Deputy Prime Minister, Mr Morarji Desai, is chairman of the committee. The other members are: Vice-chairman—Minister (Revenue and Expenditure); four members of Parliament—Mr M. V. Krishnappa, Mr S. D. Patil, Mr N. K. Somani and Mr Uma Shankar Dixit; two ex-officio members—President, Federation of Indian Chambers of Commerce and Industry (Mr L. N. Birla), and President, Associated Chambers of Commerce and Industry (Mr C. A. Pitts); six other non-official members—Lt-Col V. R. Mohan, Mr Kasturbhai Lalbahai, Mr K. S. Dutt, Mr K. N. Mookherjee, Mr R. Thakur, and Mr J. M. Thakore; and three official members—Secretary, Ministry of Finance, Department of Revenue, Chairman, Central Board of Direct Taxes, and Member, Centrai

Board of Direct Taxes. The term of office of members of Parliament nominated to the committee is two years or till they cease to be members of Parliament, whichever is earlier; that of the other non-official members is two years.

RAILWAYS ORDER WAGONS

The Indian Railways has placed orders on private units for the supply of wagons worth Rs 63 crores and cast iron sleepers worth over Rs 3 crores. Disclosing this, the Railway Minister said in New Delhi last week that the industry had now a firm order for 21,000 wagons for 1967-68, including a backlog of 5,000 from last year. He feared that if the industry did not create more capacity, the backlog by next March would be about 10,000. The railway workshops had now a capacity of 6,000 wagons per annum against which orders for 4,500 wagons had been placed for the current year. Mr C. M. Poonacha said that the total requirements of the railways during the next year would be about 26,000.

S.T.C.'s EXPORT PLANS

The State Trading Corporation of India plans tentatively to export Rs 304 crores worth of goods during the fourth Plan period. To the Soviet Union alone, it hopes to export consumer goods worth Rs 88.6 crores, of which readymade garments will account for Rs 30 crores, cotton textiles Rs 17.6 crores and coir goods Rs 12.5 crores. Among the new items which the STC is introducing in the Soviet market are machine tools, refrigerators, air-conditioners, vacuum flasks, paint brushes, surgical gloves, spectacle frames, razor blades, etc. The corporation is also laying emphasis on popularising Indian goods in the eight rupee countries of the east European zone. Our exports to these countries have gone up from Rs. 21 crores a decade ago to Rs 157 crores in 1965-66, registering an increase of seven and a half times.

WEST GERMAN LOAN

The Indo-German aid agreement for DM250 million (about Rs 55 crores) which had been initialled some time back, was formally signed in Bonn on October 4 in the presence of the union Finance Minister, Mr Morarji Desai. The agreement includes DM140 million commodity assistance to our country for meeting its civil imports in the current year. Of this amount, DM110 million are tied to purchases of German goods and services and the balance is for free imports from any source. The amount of DM66 million is for project assistance and specific projects remain to be discussed. Another DM15 million are for loans to financing institutions, viz., the ICICI and IFC. Only DM29 million are for refinancing repayment of loans for the Rourkela project.

INDIAN OIL CORPN.

The Indian Oil Corporation Limited has declared for the first time a dividend of six per cent on the equity capital for 1966-67. Describing it as a significant milestone, its Chairman, Mr N. N. Kashyap, said at the annual general meeting of the Corporation held in Bombay on September 30, that this was in consonance with one of the basic objectives underlying the public sector enterprises, viz., generating revenues for national use. Indian Oil, he was proud to state, had emerged as the biggest oil company in India, representing about 35 per cent of the total sales of and meeting 32.5 per cent of the total demand for petroleum products in the country during the year. It closed the year with a turnover of Rs 338 crores and its profits for the period and before taxation amounted to Rs 6.26 crores as against Rs 1.01 crores for the previous year. Mr Kashyap said that the profitability would have been high but for the unavoidable losses to the extent of Rs 3.97 crores due to devaluation, under-recoveries of rail freight and central sales tax which were the outcome of the pricing policy in respect of petroleum products in the country. Besides the Haldia refinery, which will be built and managed by the

Corporation, it has three wholly-owned refineries while the products of the Cochin refinery are under its exclusive distribution. The products of the Madras refinery, now under construction, will also be marketed by it. The Corporation earned during the year foreign exchange worth Rs 35 lakhs by way of exports of petroleum products; its target for the current year is Rs 7 crores. The Corporation is now in a position to meet the entire requirements of jet fuels in the country and products like highspeed diesel and furnace oil, which were being imported, have now become surplus. It will also soon be able to make available lubricating oils and bitumen through the Barauni refinery. It is now catering to over 40 per cent of the total aviation business in the country. Only recently, the Corporation introduced its cooking gas, Indane, which is at present available in Calcutta, Patna, Jamshedpur, Ranchi, Allahabad, Varanasi, Lucknow and Delhi and as more cylinders become available in the coming months, this facility will be extended to other towns and industrial areas.

ANNUAL PLAN FOR 1968-69

In a letter to state governments, the Planning Commission has proposed that the basic objectives of the annual plan for 1968-69 should be to ensure stability in prices to the extent possible and to secure a feasible rate of growth without generating inflationary pressures. Indicating the guidelines for the preparation of the draft annual plan, the Commission has suggested that the state governments should make an assessment of the progress, both in financial and physical terms, of the annual plan for 1966-67. It was also necessary to keep in view the expected fulfilment of the current year's annual plan, both in terms of expenditure as well as key physical targets. The Commission has suggested that in the formulation of the annual plan for 1968-69, the state governments should take into account the spill-over expenditure to honour the commitments made. The programme would have to ensure utilisation of the infrastructure already created and fill up essential gaps for future development. As regards projects needing foreign exchange, the state governments should consider only those for which foreign exchange had been assured. Proposals for the development programmes for hill and border areas and other backward areas would be prepared separately. In the case of irrigation projects, the Commission has suggested that high priority should be given to the early completion of the projects which were in an advanced stage of construction. The projects should be suitably phased to yield early more benefits. If necessary, the projects on which expenditure so far incurred was small as compared to the total cost should be slowed down or even deferred. As regards the power plan, it should be based on the integrated operation of power systems and the establishment of regional grids for ensuring that the generating capacity which might be set up was properly utilised. It was, therefore, necessary to make adequate provision for a well considered programme for transmission and distribution lines. Wherever intensive agricultural development programmes were being implemented, they should receive preference for electrification. For ensuring speedy construction and completion of inter-state lines, earmarked central assistance will be made available for all approved inter-state lines. The commission has already requested the state governments to furnish details of the estimates of state financial resources for the 1968-69 annual plan.

A.R.C.'s DEVELOPMENT CONTROL GROUP

The Administrative Reforms Commission has appointed a six-member Working Group on Developmental Control and Regulatory Organisations, under the Chairmanship of Mr Manubhai Shah. The other members of the group are: Mr Tikaram Paliwal, Mr S. K. Kirloskar, Dr B. N. Ganguli and Mr B. D. Kalelkar. Mr N. K. Mukarji is the member-secretary to the group. The working group will have a fresh look at the developmental and regulatory organisations of the government with a view to assessing their suitability and effectiveness for car-

rying out economic objectives. It will also suggest how best their activities could be integrated with those of the Director General of Technical Development and the Chief Controller of Imports and Exports. The group will also examine the present set up of the developmental and regulatory organisations with a view to building up the technical expertise necessary for their changed role as promotional agencies rather than mere control organisations. It will go into their several activities which are in the nature of price support measures. Other matters relating to their contribution towards speedy economic growth will also be examined by the group.

INDO-ALGERIAN TRADE TALKS

It should be possible to increase substantially trade exchanges between India and Algeria within a relatively short period. This was stated in a joint communique issued after the conclusion of talks between an Algerian trade delegation and its Indian counterpart. The Algerian delegation was in our country from September 27 to October 7 at the invitation of the Government of India. The communique stated that India is in a position to take rock phosphate, fertilisers, particularly urea, non-ferrous metals and cork from Algeria. In return, it could ship to that country a wide range of industrial equipment in addition to sizeable quantities of textiles, coffee, tea, tobacco and jute manufactures. The two delegations agreed that exploration of these prospects should be undertaken in depth before the trade protocol scheduled to be concluded in Algiers in January next. Possibility of joint ventures between the two countries was also explored. The Algerian delegation evinced interest in the setting up of factories in Algeria for the production of bicycles, motorcycles, diesel engines and tractors. Experts from India will visit that country shortly with a view to examining the feasibility of such ventures. India may also accede to the Algerian request for the services of Indian technicians in the fields of oil industry, civil engineering and civil aviation.

JUTE FORWARD TRADING

The East India Jute and Hessian Exchange of Calcutta 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 October 6.

VANASPATI PRICES

As a sequel to a further fall in the prices of vegetable oils, prices of vanaspati were reduced for the fifth time in succession with effect from October 1 in the south, east and west zones. Prices in the north zone, however, remain unchanged. The maximum retail prices of vanaspati in different pack sizes, and when sold loose, exclusive of local taxes, are as under:

	(in 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	66.66	17.80	9.33	4.04
East zone	68.09	18.14	9.50	4.13
West zone	67.54	18.01	9.44	4.09

PRE-SHIPMENT INSPECTION

Electric fans, sewing machines, diesel engines, power driven pumps, automobile spares, components and ancillaries have been brought under compulsory quality control and pre-shipment inspection with effect from October 3, 1967. From now on, no consignment of these goods can be exported from the

country unless it is accompanied by a 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.

ALGIERS MEET

A meeting of 77 developing countries started deliberations in Algiers on October 10; it will last until October 22. The meeting will evolve a common approach on problems of mutual trade interest, in preparation for the second United Nations Conference on Trade and Development to be held at New Delhi early next year. The Indian delegation is headed by Mr Dinesh Singh, Minister for Commerce.

KOTA INSTRUMENTS PLANT

The state-owned precision instruments plant at Kota is expected to go into commercial production early in the new year. Trial production is already on. The plant has an eight-year production programme which includes diversified range of products to boost indigenous availability of instruments which are currently imported. It will provide instruments for process industries, such as steel plants, thermal power plants, etc.

STEEL MINISTER IN U.K.

The Minister for Steel, Mines and Metals, Dr M. Chenna Reddy, left New Delhi on October 7 on a ten-day visit of the United Kingdom at the invitation of the British Government. Besides studying the organisation of the nationalised steel industry there, he will have discussions with the British Government on matters of common interest and in particular the Durgapur steel plant.

PROCESSED FOOD EXPORT

Exports of processed foods for the period April-August, 1967 were worth Rs 167.14 lakhs as against Rs 126.97 lakhs for the corresponding period of the previous year, marking an increase of approximately 25 per cent. In terms of foreign exchange, however, the increase in earnings is only marginal, the respective figures being £745,669 and £724,119.

KRUPPS NEW MANAGER

When the great industrial empire of Krupps in West Germany becomes a public company later this year, it will have Mr Guenter Vogelsang as its new managing director. As chief executive of the company, he will work in close co-operation with the recently appointed six-man administrative council headed by Mr Hermann J. Abs of Deutsche Bank and Mr Warner Krueger of the Dresdner Bank, the bankers of the firm. Mr Vogelsang, 47, had joined Krupp as head of the Audit Department in 1954. Six years later, when he was already on the board of the Bochumer Verein—a Krupp subsidiary—he had left to take over control of finance, taxation, purchasing and organisation in Mannesmann, which organisation he will now be leaving.

A.R.C. TEAM ON RAILWAYS

The Administrative Reforms Commission has appointed a six-member study team on Railways under the chairmanship of Dr H.N. Kunzru. The other members of the team are: Mr P.C. Bhattacharyya, Mr G. Pandey, Mr K.B. Mathur, Mr P.L. Tandon, and Mr P.C. Mathew (member-secretary). The team will examine administrative and financial arrangements for the working of the Indian Railways, locate principal problem areas and make recommendations with a view to building an administratively efficient and financially sound system that would provide adequate and economical transport to the community.

Company Affairs

FERTILISERS AND CHEMICALS

MR PARAKAT Achutha Menon, Chairman, Fertilisers and Chemicals, Travancore Ltd, pointed out at the annual general meeting held recently that the teething troubles as well as problems arising from the shortage of raw materials and power interruptions prevented the company from taking full advantage of expansion. The third stage of expansion in the plant was achieved during the year ended March 31, 1967 and the fourth stage of expansion involving an investment of Rs 5 crores was on its way. He expected the plant to be commissioned by 1969, when the capacity of the Udyogmandal Division would have gone up to 90,000 tonnes of nitrogen and 45,700 tonnes of P2O5. He stated that the Rs 40-crore Cochin Fertilizer project at Ambalamedu, in Ernakulam District, was progressing satisfactorily, and this project was expected to achieve its completion by October 1969. This project was expected to produce 330,000 tonnes of urea a year, employing the most modern technique for ammonia production. The company, he added, had submitted to the Government of India a project report for establishing the production of phosphatic fertilizers as a second phase of the Cochin Fertilizer project. This scheme will involve an investment of Rs 22.35 crores and was aimed at the production of 184,000 tonnes of P2O5 in the form of triple phosphate and complex fertilizers.

The chairman pointed out that the FACT Engineering and Design Organisation (FEDO) which was set up to undertake the complete designing and engineering of fertilizers and allied plants was engaged in the work relating to the Cochin Fertilizer project and the synthesis gas plant of the Durgapur Fertilizer project. He added that the response from other investors for the utilisation of the experience gained by this organisation was encouraging and it was negotiating process licences for manufacture of phosphoric acid by the well-known Prayon process and sulphuric acid from different raw materials such as pyrites, gypsum, etc. based on the know-how to be supplied by Chemiebau Dr A. Zieren GmbH of West Germany. The approval of the Government of India for these agreements was awaited. With these arrangements this new organisation was in a position to undertake the complete design and engineering of both the nitrogenous and phosphatic fertilizer plant in this country.

JAY ENGINEERING

Mr Charat Ram, Chairman, the Jay Engineering Works Ltd, Calcutta, stated at the annual general meeting held recently that the political pattern that had emerged after the last general election in West Bengal had aggravated various economic problems. He added that there seemed to be a planned attempt to demolish the stability of our society by encouraging disorderliness and indiscipline. Slowdowns, stoppages of production, intimidation of supervisory personnel and various other obstructions in the running of factories had a design behind, he added. The chairman stated that this company also had a share of slowdowns and general disorder prevailing in the state. He pointed out that the company made considerable efforts to improve relations with the workers but the present climate and the mood of the government and the labour made it difficult to bring about amiable atmosphere. There was a fall in profits and the directors considered it proper to pass the dividend on equity shares and plough back into the business the entire residual earnings of the year.

Mr Charat Ram stated that the company was working intensively towards the twin objectives of effecting economies in cost of production and marketing and diversification of its products. Production and sales of needles were reorganised during the year. The gray iron foundry of the company also was running at a higher capacity as a result of the continuous orders for its products. He stated that the new models of sewing machine and fan were introduced during the year. He added that the export efforts of the company were proving

successful. The international market for sewing machines and fans was highly sophisticated and competitive and the company has been gearing its design development department and the quality control department to meet this challenge. He added that the policy of exporting even at a sacrifice, initiated by the late Mr Shriram, was paying at present when the recession within the economy was threatening many other engineering industries. The export outlets were enabling the company to maintain production at levels which the Indian market could not have supported. The Ceylonese subsidiary of the company had done considerably better than the previous year and its sales and profits had increased. Steps were being taken, he added, to expand its operations in Ceylon.

ORIENT PAPER

Orient Paper Mills Ltd has reported a marked rise in its production, sales and earnings during the year ended March 31, 1967. The company's gross profit more than doubled to Rs 2.23 crores from Rs 1.15 crores for the previous year. The company's sales increased to Rs 19.89 crores from Rs 15.48 crores. The directors proposed to maintain the equity dividend of 20 per cent for the year. The company recently issued bonus shares in the ratio of one share for every share held. The bonus shares rank for dividend from the current year.

After providing Rs 199.66 lakhs for depreciation and Rs 8.03 lakhs for taxation in respect of previous years, the directors have transferred a sum of Rs 64.28 lakhs to the general reserve and Rs 50.91 lakhs to the dividend equalisation reserve. The proposed equity and preference dividends will claim Rs 50.91 lakhs and will be paid out of the dividend equalisation reserve.

The company's production of paper and board at both the mills at Brajrajnagar and Amlai amounted to 119,000 tonnes against 95,000 tonnes in 1965-66. The higher production was attributed to improvement in working of the Amlai factory. The expansion of production capacity at Brajrajnagar was proceeding satisfactorily. During the year, the company exported paper valued at about Rs 16 lakhs.

HINDUSTAN DOWIDAT

Hindustan Dowidat Tools Limited reported a sharp setback in its earnings during the year ended March 31, 1967. The gross profits declined to Rs 6.69 lakhs from Rs 16.32 lakhs in the previous year. Sales were marginally lower at Rs 50.54 lakhs against Rs 50.64 lakhs. The directors had to reduce the dividend from 7.5 per cent to five per cent. The setback in earnings was attributed to shortage of electric power, rise in cost of production and general recession in the economy of the country. After providing Rs 2.43 lakhs for depreciation and Rs 43,000 for development rebate reserve, the net profit was lower at Rs 3.83 lakhs against Rs 9.28 lakhs last year. After writing off preliminary expenses amounting to Rs 30,804, the directors transferred Rs 3.54 lakhs to general reserve. The proposed dividend was to be paid out of general reserve. The carryover was Rs 1,517 against Rs 4,042 brought in. The company's working during the current year so far improved to a considerable extent with the addition of certain new items of production. The company's range of production was to be widened with the proposed installation of some balancing specialized equipment. The company was also making every effort to promote exports.

MYSORE CEMENTS

Mysore Cements Limited recorded an increase in sales, during the year ended June 30, 1967, from Rs 1.41 crores to Rs 2.43 crores. The gross profit more than doubled from Rs 37.79 lakhs to Rs 82.30 lakhs. The directors recommended a dividend of 75 paise per share, less tax, which would absorb Rs 13.50 lakhs. After providing Rs 7.17 lakhs for preliminary



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very careful
an expert
trained in the art
of handling
all things
delicate, heavy,
perishable or alive.

My handling technique
and pressurised cargo holds
keep your goods
in fine condition
for markets
for profits.

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or our local office
for assistance.

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expenses and underwriting commission and wiping off a loss of Rs 7.61 lakhs, there was a balance of Rs 67.51 lakhs. From this, Rs 9.03 lakhs was provided for expansion reserve, Rs 21.92 lakhs for depreciation, Rs 0.30 lakh for donations and Rs 0.52 lakh for contingencies (railway claims). There was a net profit of Rs 35.72 lakhs. After providing Rs 13.50 lakhs for the payment of the proposed dividend, there was a balance of Rs 22.22 lakhs which was carried forward. The directors stated that development rebate amounting to Rs 65.82 lakhs had to be provided for in subsequent years. Production of klinker went up from 137,000 tonnes to 194,000 tonnes. Production of cement was equally higher at 212,000 tonnes against 134,000 tonnes in the previous year. Naturally despatches were also higher at 209,000 tonnes against 127,000 tonnes in the previous year. The directors pointed out that the Agency for International Development, Washington, had sanctioned a loan of Rs 2.05 crores to the company for expanding the capacity from 200,000 tonnes to 400,000 tonnes per annum, with a condition that the company should issue preference shares to the extent of Rs 70 lakhs. Orders for the supply of main plant with Messrs ACC-Vickers-Babcock Ltd, Durgapur, had already been placed and orders for other ancillary equipment were being finalized. It was hoped that if no other adverse factors arise it should be possible to commission the plant by the end of next year.

TATA OIL

The Tata Oil Mills Co. Ltd proposed to issue Rs 35 lakhs worth of cumulative redeemable 'A' preference shares at 9.3 per cent. The issue would provide funds to finance the company's capital expansion programme and the additional working capital. It was also proposed to improve its debt-equity ratio and the capital turnover ratio. No part of the proceeds would be applied to acquire any business or for any other purpose. The authorised capital of the company was Rs 5 crores divided into 30,000 (4.5 per cent) cumulative redeemable 'A' preference shares of Rs 100 each, 800,000 ordinary shares of Rs 25 each, 35,000 unclassified shares of Rs 100 each and 800,000 unclassified shares of Rs 25 each. Of this, 29,888 (4.5 per cent) cumulative preference shares of Rs 100 each and 560,599 ordinary shares of Rs 25 each had been issued and subscribed.

The loan capital as on March 31, 1967, stood at Rs 1 crore. Of this, six per cent mortgage debentures (1969-74) worth Rs 50 lakhs had been issued to the public while debentures of a like amount were lodged with the State Bank of India as security for cash credit advances. The present issue of 35,000 (9.3 per cent) cumulative redeemable 'A' preference shares of Rs 100 each would be offered to public for cash at par. The entire public issue has been underwritten.

JAYANT PAPER

Jayant Paper Mills Ltd has recorded a gross profit of Rs 9.61 lakhs during the year ended June 30, 1967. Last year's gross profit of Rs 9.71 lakhs included a refund of excise duty aggregating Rs 2.13 lakhs. The actual working results, therefore, compared favourably. The company's performance in the field of sales and production was also better. Its net sales moved up from Rs 49.78 lakhs to Rs 58.43 lakhs and its production from 4,142 tonnes to 4,573 tonnes. Besides, it had plans to expand its activity. The management proposed to install an additional plant with a five-ton capacity at a capital cost of Rs 10.60 lakhs and a division for the manufacture of corrugated fibre boards and containers at a cost of Rs 7.90 lakhs. The new paper plant was scheduled to commence production by the end of 1968 and the container division in the first quarter of 1968. The entire expansion was proposed to be financed from borrowings and internal resources, the company having already applied for a loan of Rs 14 lakhs from the Gujarat State Financial Corporation. Out of the gross profit for 1966-67, the company provided Rs 3.85 lakhs for depreciation, Rs 1.42 lakhs for taxation and Rs 17,000 for development rebate reserve. The net profit for the year amounted to Rs 4.18 lakhs out of

which a sum of Rs 3.70 lakhs was set apart for general reserve after writing off preliminary expenses amounting to Rs 50,000. The proposed equity dividend absorbed Rs 2.23 lakhs out of general reserve.

STANDARD MOTOR

Standard Motor Products of India Ltd proposed to enter the capital market on October 20 with a public issue of Rs 12.50 lakhs in equity shares of Rs 10 each at par. The subscription list will close on October 31 or before but not earlier than October 26. The entire public issue has been underwritten. The company has an authorised capital of Rs two crores and an issued and paid-up capital of Rs 1.25 crores (Rs 50 lakhs in preference shares, Rs 72 lakhs in equity shares and Rs three lakhs in deferred shares). The present issue is for Rs 25 lakhs, of which shares of Rs 5.25 lakhs have been allotted to the collaborators at par for supply of machinery and equipment and of Rs 7.25 lakhs subscribed by the associate companies at par.

The proceeds of the present issue will be utilised for the next three years as the company has applied for raising the capacity of trucks from 1,500 to 3,000. It is making arrangements for manufacturing dies required for the manufacture of four-door Herald cars. The body press shop is already in operation. The four-door cars will be produced early next year. With the production of Standard-P chassis and the four-door cars, in full swing, future earnings are expected to be encouraging. It hopes to achieve 90 per cent indigenous content in the case of both trucks and cars shortly. The total financial requirements for the next three years are estimated at Rs 122 lakhs, which will be met from capital issue (Rs 25 lakhs), bank borrowings (Rs 17 lakhs) and cash accruals (Rs 80 lakhs).

MOHAN MEAKIN

The directors of Mohan Meakin Breweries Ltd have decided to issue bonus shares in the ratio of one for one held by capitalising the reserves. The company received a licence for the setting up of a brewery in Maharashtra. The brewery would have a capacity of 20,000 gallons a day. At this brewery, it was proposed to develop medicinal wines as well. The construction work in the case of Chandigarh project was in progress. A spirit bottling plant had been set up to cater for the needs of the liquor licences of the union territory, as well of those who were situated in the adjoining States of Punjab and Haryana. This had a capacity of 10,000 gallons a day.

MODI THREAD MILLS

Modi Thread Mills, a Rs 4.5-crore project, which recently went on stream was expected to manufacture threads for a wide variety of use. The management proposed to keep high standards and manufacture threads from select varieties of Indian and Sudanese cottons. The plant and machinery had been supplied by British manufacturers, Platt Brothers Limited, at a cost of over Rs 2.25 crores. The average gross sales realisation of the mills was expected to be around Rs 3.50 crores annually. Of this, sewing thread of the value of Rs 50.6 lakhs would be exported to West Asia and African countries in addition to Afghanistan, Burma and Ceylon. Goods worth Rs 24 lakhs were expected to be supplied for defence.

GREAVES COTTON

Greaves Cotton and Co. Ltd proposes to raise the equity dividend on the increased capital for the year ended March 31, 1967. The company has declared a dividend of 12.5 per cent on a larger capital resulting from its two-for-five bonus issue. It had paid a dividend of 14 per cent for 1965-66. The company has produced slightly better results for the year with a gross profit of Rs 95.70 lakhs against Rs 93.05 lakhs for the previous year following a rise in sales from Rs 16.41 crores to Rs 17.42 crores. Its income from investments was Rs 21.17 lakhs and

its remuneration from managed companies at Rs 4.24 lakhs, respectively, for the previous year. The company has provided Rs 3.72 lakhs for depreciation, Rs 42.63 lakhs for taxation, Rs seven lakhs for debenture redemption reserve, Rs 13 lakhs for general reserve and Rs 2.34 lakhs for doubtful debts reserve. After setting apart Rs 27.20 lakhs for the preference and equity dividends, the balance of Rs 5,737 has been carried forward against Rs 25,080 brought in. In the current year so far, the company was able to counter the recession. It has maintained the established levels of production and sales. It was faced with a strike in the beginning of the current year but that was not expected to make a material difference to its overall performance for the current year.

GANGES MANUFACTURING CO.

The Ganges Manufacturing Company Limited proposed to pay a dividend of five per cent on the ordinary shares for the year ended March 31, 1967, being the same as for the previous year. Though the sales went up to Rs 764.85 lakhs from Rs 609.44 lakhs, profits before depreciation stood at Rs 15.30 lakhs against Rs 32.38 lakhs. The shortage of jute with consequential higher jute prices without a proportionate rise in the price of manufactured goods, increase of wages, freights, interest rates, stores costs and increased rate of jute tax were mainly responsible for a lower margin of profit. A sum of Rs 14.43 lakhs was provided for depreciation against Rs 14.40 lakhs. A sum of Rs three lakhs was transferred from general reserve against Rs 4.50 lakhs. After maintaining the same dividend on the equity and preference shares as in the previous year the carryover was Rs 15,985 against Rs 36,416 brought in.

CAPITAL AND BONUS ISSUES

Consent has been accorded to ten companies to raise capital amounting to more than Rs 10.61 crores. Seven of them are to issue bonus shares exceeding Rs 1.85 crores. The amount of bonus shares ranges between Rs 50,000 and Rs 1.40 crores. The consents are valid for 12 months.

Titaghur Paper Mills Co. Ltd, Calcutta, has been granted consent to capitalise Rs 1,40,02,120 from its share premium and free revenue reserve and issue fully-paid bonus shares in the ratio of one for every two equity shares held.

Dishergarh Power Supply Co. Ltd, Calcutta, is permitted to capitalise Rs 28.80 lakhs from general reserve and issue fully-paid bonus shares in the ratio of two for three held.

Electro Metallurgical Works Ltd, Bombay, is allowed to capitalise Rs 9.24 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.

New Chumta Tea Co. Ltd, Calcutta, is accorded consent to capitalise Rs 4.5 lakhs from general reserve and issue fully-paid bonus shares in the ratio of one for every two held.

Kidarnath Kishan Chand Private Ltd, Bombay, is given consent to capitalise Rs 2,05,200 out of general reserve and issue fully-paid equity shares of Rs 100 each as bonus shares in the ratio of two for three held.

Sadvaityasala Private Ltd, Nanjangud, is permitted to capitalise Rs 82,750 out of general reserve and issue fully-paid equity shares of Rs 250 each as bonus shares in the ratio of one bonus share for every five fully paid-up equity shares held.

Behar Cold Storage Private Ltd, Calcutta, is granted permission to capitalise Rs 50,000 from general reserve and issue fully-paid bonus shares in the ratio of one for two held.

Industrial Credit and Investment Corporation of India Limited, Bombay, has been accorded consent to issue 6 per cent debenture stock of the value of Rs 7.50 crores in units of Rs 5,000 each. The issue price of the debentures will be at 98 per cent and redeemable at par within a period of 8-10 years. The debentures will be issued to registered holders only.

Bhagalpur Electric Supply Co. Ltd, Calcutta, is permitted to capitalise Rs 1,47,840 from general reserve to increase the

face and paid-up value of the shares from Rs 8 to Rs 10 per share.

Indian Copper Corporation Ltd, Calcutta, is allowed to issue promissory notes and guarantees of a total value of Rs 123.90 lakhs in favour of Power Gas Corporation Ltd, London, and the Commonwealth Development Finance Co. Ltd, London, in respect of their loans of £340,000 (Rs 71.40 lakhs) and £250,000 (Rs 52.50 lakhs) to the company. The loan will be utilised for the expansion of the company.

LICENCES AND LETTERS OF INTENT

The following licences and letters of intent were issued under the Industries (Development and Regulation) Act, 1951, during the week ended September 2, 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.

Coal

M/s Bharat's Debuttar Estate, Lakurka Khas Colliery, P.O. Katrasgarh (Eastern Rly.), Dhanbad (Bihar). (Lakurka Khas Colliery, Mouza Salanpur-cum-Panchgarhi, P.O. Katras): Coal—25,000 tonnes per annum. (C.O.B.).

Hand Tools

M/s Steel & Allied Products Limited, 6, Little Russell Street, Calcutta-16. (Calcutta, West Bengal): Slitting Saws and Slotting Cutters—60,000 Nos. per annum. (S.E.).

Silk Yarn and Hosiery

The Secretary to the Government of Bihar Industries and Technical Education Deptt., Patna. (Undertaking: Government Spun Silk Mills, Bhagalpur). (Bhagalpur, Bihar State): 3,000 spindles for the manufacture of 50,460 Kgs. of spun silk yarn per annum and 420 spindles for the manufacture of 45,000 Kgs. of voil silk yarn per annum. (N.U.).

Flour

Shri M. L. Gupta, M/s. Cochin Roller Flour Mills, National Highway, Kalamassery, Ernakulam. (Kalamassery, Ernakulam): Wheat Products—30,000 tonnes per annum (on three shift basis). (N.U.).

LETTERS OF INTENT

Electrical Equipment

M/s R. J. Wood & Co. (P) Ltd, P.O. Box No. 1001, State Bank Building, Chandni Chowk, Delhi-6. (Haryana): (i) Cinema Arc Carbons, (ii) Search Light and Studio Carbons, (iii) Gouging and Graphite Weld Carbons, (iv) Photo Carbons, (v) Graphite Electrodes and Stoppers (for Calcium Cyanamide manufacture)—1.2 million pairs (Existing capacity) 1.8 million pairs (New items) (N.A.).

Engineering Industries

M/s Warrior (India) Limited, Forbes Building, Home Street, Fort, Bombay-1. (Dombivli, Maharashtra): Threading Chasers—25,000 sets per annum. (N.A.).

Chemicals

M/s Polychem Limited, 7, Jamshedji Tata Road, Churchgate Reclamation, Bombay-1. (Maharashtra): ABS Resins—1,600 tonnes per annum. (N.A.); M/s Dharampur Leather Cloth Co. Pvt. Ltd, 10, Chowpatty Sea Face, Bombay-7. (Dharampur, Gujarat): Fibreglass Re-inforced Polyester and Epoxy Mouldings—5,00,000 sq. ft. per annum. (N.A.).

Drugs and Pharmaceuticals

M/s Sarabhai Merck Ltd, Wadi Wadi, Baroda. (Gujarat): Vitamin B6—From one tonne to ten tonnes per annum. (S.E.).

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

M/s Vivek Rolling Mills, Bijapur—Re-rolled Products. M/s Andhra Sugars Ltd, Tanuku—Chloro Acetic Acid. M/s Arati Cotton Mills Ltd, Dassnagar, Howrah—Cotton Cloth. Smt. Parvathi Arjunan, Erode—Cotton Yarn. M/s Podar Gates Rubber Industries Ltd, Bombay—Automobile Tyres and Tubes.

BOOKS BRIEFLY

Company Law for Foreign Investors

Indian Company Law (1967): Published by Indian Investment Centre; Pp. 164; Price Rs 10.

Reviewed by R. S. NIGAM

EVER SINCE its establishment the Indian Investment Centre has been active in promoting the flow of foreign private investment to our industries. It has assisted in the establishment of joint ventures between Indian and foreign entrepreneurs. To promote these objectives, it has, in recent years, brought out a number of informative publications on various aspects of our business conditions to educate the foreign investor. The book under review is one such publication which aims at giving a synoptic view of company law in this country.

The Indian Companies Act 1956 (as amended from time to time) is regarded as one of the most complicated piece of legislation in the world. It contains 658 sections and 12 schedules, to summarise which in 164 pages along with other relevant information is not an easy task for any one. Immediately after the coming into force of the Act in 1956, an attempt was made in this direction by the then Department of Company Law Administration through the publication of "A Layman's Guide to Indian Company Law" which contained a concise and lucid exposition of the main provisions of the new Act with a brief elucidation of the background and objects. This book never appeared in a revised form. This was followed by a brochure on Indian Company Law in 1964 which was published by the Indian Investment Centre and was priced moderately at three rupees.

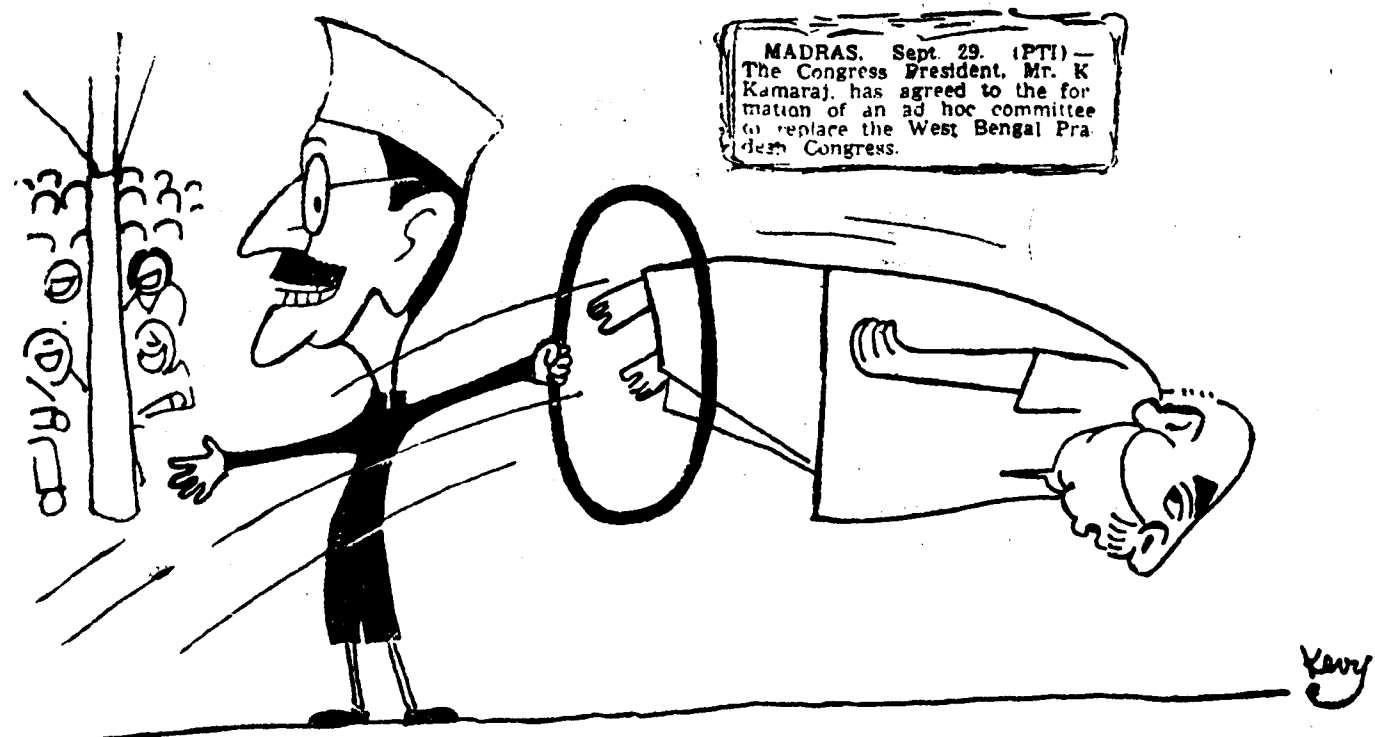
Since then numerous changes have taken place in the Companies Act 1956 through various amendments which have materially affected a number of important provisions such as the commencement of business, inter-company loans and investments, concept of "deemed directors", restrictions on blank transfers, narrowing the list of relatives, increase in the powers of the central government to order cost and efficiency audit,

etc. These have necessitated a thorough revision and recasting of the earlier publication, which has been commendably done in the book under review. It not only incorporates up-to-date information (except the abolition of Company Law Tribunal which took place by an amendment after the publication of this book) but also tries to enlarge the scope and re-arrange the material to suit foreign collaborators and investors who would like to have a glimpse of the subject for investing in India. A chapter on 'Formation and Working of a Joint Venture Company', added in this edition, enhances its utility.

The book has thirteen chapters. It has as many as thirteen appendices summarising useful information such as delegation of administrative powers, privileges and obligations of private companies, books and registers required to be maintained by a company, capital issue control, stock exchange requirements for listing of corporate securities, inter-corporate investments provisions, fees payable for various purposes, matters requiring special resolutions, exemption from branch audit, requirements regarding filing of accounts by foreign companies, etc.

As Mr G. L. Mehta, the chairman of the Indian Investment Centre, has acknowledged in the foreword, the book is primarily an "Introduction to the Indian company law" and perhaps it is the best introduction on the subject ever published in this country. It will be found useful not only by the foreign investor, but also the company executives and students.

Since judicial decisions have significantly contributed to the growth of company law, it would have enhanced the utility of this book if some interesting aspects such as 'indoor management', 'doctrine of ultra-vires', 'constructive notice', and 'corporate personality', were illustrated by citing specific cases. A bibliography of first rate literature on the subject could also have been appended to make the book more useful for those who want to make further study of the subject.



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RECORDS AND STATISTICS

India's Foreign Trade : 1966-67

INDIA'S EXPORTS (including re-exports) during the year following devaluation (June 1966—May 1967) at \$1525.4 million were 11.2 per cent lower as compared to exports during the corresponding period of the previous year. Exports during the financial year 1966-67 stood at \$1557.9 million as against \$1692.5 million during the year 1965-66, showing a decline of \$134.6 million or eight per cent.

The following table shows quarterly trends in India's exports after devaluation along with corresponding data for the previous year :—

QUARTER-WISE EXPORTS

	1965-66		1966-67		Percentage fall (—) or rise (+) in 1966-67
	Rs. crores	\$ Mill.	Rs. crores	\$ Mill.	
First quarter (June-August)	197.6	415.0	259.1	345.5	—16.8
Second quarter (Sept.-Nov.)	212.1	455.5	299.1	398.8	—10.5
Third quarter (Dec.-Feb.)	199.5	419.0	297.5	396.6	— 5.4
December	72.73	152.79	104.56	139.41	
January	65.84	138.32	103.87	138.49	
February	60.89	127.92	89.06	118.75	
Fourth quarter (March-May)	204.4	429.4	288.3	384.5	—10.5
March	77.8	163.5	115.1	153.5	
April*	62.0	130.2	92.3	123.5	
May*	64.6	135.7	80.9	107.9	
One year (June-May)	1718.9		1525.4		—11.2

* Relate to 1966-67 and 1967-68 respectively.

In spite of the overall set-back of 9.6 per cent in exports during the year following devaluation, there have been some redeeming features of our export performance. For example, exports of items like raw skins, tanned and finished leather, iron and steel, fish and other marine products, raw jute, pulses,

cardamoms, cashew kernels, animal casings, hand-made carpets etc., had considerably improved after devaluation. Policy decisions taken by the government in respect of both traditional and non-traditional items, such as tea, jute goods, engineering goods, chemicals and allied products, and iron and steel had helped in exporting more quantities of them despite shortages in them in the domestic market and the weakness in international prices.

However, the increase in exports of the items mentioned above was not sufficient to offset the substantial decline in exports of many other items, main among them being the four traditional items, viz., tea, jute goods, cotton piecegoods and tobacco unmanufactured. The unprecedented fall in the production of raw jute and cotton oilseeds and vegetable oils, tobacco, chillies, pepper, etc., during the year 1966 on account of severe drought conditions in the country had considerably reduced export surpluses of these commodities. The production data in respect of some of our main export items are given below :

PRODUCTION OF MAJOR ITEMS

	('000 tonnes)		
	1964	1965	1966 (Jan.-Nov.)
1. Tea	373	368	376
2. Jute manufactures	1271	1336	1200
3. Cotton piecegoods (Mil. metres)	4654	4587	4239
4. Tobacco	358	346	274
5. Coffee	67.8	80.2	69.0
6. Vegetable oilseeds	7058	8458	6097
7. Black pepper	25	24	23
8. Sugar	2562	3232	3537
9. Dry chillies	456	469	381
10. Mica (crude)	23	24	20

Commodity-wise statistics are available for ten months after devaluation, viz., June-March 1966-67. During these 10 months, India's total exports at \$1289.6 million were 10.6 per cent lower than exports during the corresponding period last year at \$1443 million. While a number of commodities including the major and traditional ones registered a fall in exports, quite a few items showed increased exports. The main items which had shown increase in export earnings were as follows.

ITEMS SHOWING RISE IN EXPORT EARNINGS

Items	Unit of quantity	June-March				Rise in	
		1966-67		1965-66		1966-67	
		Q.	V.	Q.	V.	Q.	V.
Leather undressed	Mill. kg.	19.0	63.8	15.2	45.2	+ 3.8	+18.6
Iron and steel	Value	—	28.4	—	14.6	—	+13.8
Fish and other marine products	'000 tonnes	17.7	20.2	12.9	12.2	+ 4.8	+ 8.0
Raw jute	"	32.8	9.9	14.2	4.6	+18.6	+ 5.3
Pulses	"	29.3	5.0	10.2	2.2	+19.1	+ 2.8
Cardamoms	'000 tonnes	1.6	10.4	1.1	7.8	+ 0.5	+ 2.6
Cashew kernels	'000 tonnes	41.2	49.5	41.7	47.2	— 0.5	+ 2.3
Hides and skins raw	Value	—	19.1	—	17.2	—	+ 1.9
Iron and steel scrap	'000 tonnes	473.9	11.5	380.4	9.9	+93.5	+ 1.6
Wood lumber and cork etc.	Value	—	3.7	—	3.0	—	+ 0.7
Animal casings	"	—	2.9	—	2.2	—	+ 0.7
Transport equipment	"	—	5.1	—	4.4	—	+ 0.7
Hand-made carpets	"	—	9.2	—	8.5	—	+ 0.7
Footwear	Mill. pairs	9.7	10.5	7.4	10.1	+ 2.3	+ 0.4

Figures of direction of exports are available up to March, 1967. Exports to the main regions are shown in the following table:

REGIONWISE EXPORTS

	June-March, 1966-67		June-March, 1965-66	
	Rs crores	\$ Million	Rs crores	\$ Million
North America	204.32	272.427	143.25	300.945
EEC	74.88	99.940	47.31	99.391
EFTA	184.28	245.706	136.17	286.071
(i) UK	173.73	231.640	127.68	268.236
ECAFE Region	202.16	269.547	134.65	282.878
Rest of Asia	34.78	46.373	24.42	51.302
Africa	63.11	84.147	53.26	111.891
Latin America	9.25	12.333	7.28	15.294
East Europe	183.03	244.040	131.41	276.071

The European Economic Community (EEC) was the only region to which exports during June-March 1966-67 had shown some rise over June-March 1965-66. Exports to the UK had declined by about 14 per cent mainly due to lower off-take and low price realised from the exports of jute goods, tea, cotton textiles, tobacco and oilcakes. Exports to north America and to east Europe fell by 9.5 per cent and 11.6 per cent, respectively. The decline in the case of USA was ten per cent mainly on account of lower export earnings from the export of jute goods, sugar, ferro-manganese, cashew kernels, leather goods, spices, coffee, raw skins, etc. Our exports to the USSR fell substantially during the post-devaluation period, viz. by 20 per cent mainly on account of lower exports of tea, jute goods, tobacco, oilcakes, raw wool, castor oil, cotton textiles, black pepper, etc. Among the developing countries the largest decline of 25 per cent was in our exports to Africa mainly due to an alarming fall in our exports to the UAR. Exports to the UAR during June-March 1966-67 were lower by 40 per cent as compared with the corresponding period of the last year. The major items, exports of which declined were tea, jute goods and spices. To Latin America, our exports fell by 20 per cent, while to the ECAFE region by nearly 5 per cent.

On the other hand, India's exports to quite a few countries

The following are the major commodities the export earnings from which fell substantially during the ten month period after devaluation:

ITEMS SHOWING FALL IN EXPORT EARNINGS

Items	Unit of quantity	June-March				Fall in	
		1966-67		1965-66		1966-67	
		Q.	V.	Q.	V.	Q.	V.
Jute manufactures	Lakh tonnes	6.19	277.8	7.58	330.2	— 1.49	—52.4
Tea	Mill. kg.	175.2	197.0	164.8	227.7	+ 10.4	—30.7
Cotton piecegoods (Mill-made)	Mill. sq. metres	318.8	60.9	438.5	83.9	—119.7	—23.0
Tobacco unmanufactured	'000 tonnes	27.9	17.7	44.3	28.3	— 16.4	—10.6
Cotton piecegoods (handloom)	Mill. Mts.	27.9	7.7	33.8	14.0	— 5.9	— 6.3
Pepper	'000 tonnes	17.7	13.5	22.1	19.6	— 4.4	— 6.1
Art silk fabrics	Mill. Mts.	14.6	2.4	38.9	8.7	— 24.3	— 6.3
Coffee	'000 tonnes	20.5	16.1	20.9	21.7	+ 0.4	— 5.6
Vegetable oils	"	10.1	2.7	18.6	6.6	— 8.5	— 3.9
Mica	Mill. kg.	11.8	16.0	35.9	19.9	— 24.1	— 3.9
Raw wool	'000 tonnes	7.3	7.5	9.5	11.5	— 2.2	— 4.0
Engineering goods	Value	—	25.7	—	29.8	—	— 4.1
Chemicals and allied products	Value	—	11.8	—	15.2	—	— 3.4
Mineral fuels and lubricants	Value	—	13.7	—	17.0	—	— 3.3
Sugar refined	'000 tonnes	220.4	12.2	180.1	15.8	+ 40.3	— 3.6
Manganese ore	"	935.8	14.8	1061.9	19.0	—126.1	— 4.2
Cotton yarn	Mill. kg.	12.6	9.9	12.5	11.9	+ 0.1	— 2.0
Lac	'000 tonnes	14.6	6.8	12.4	8.0	+ 2.2	— 1.2

increased during this period of depressed demand conditions in our major foreign markets.

COUNTRIES TO WHICH OUR EXPORTS HAVE INCREASED
(Value in \$ Million)

Name of country	June-March 1966-67	June-March 1965-66	Increase (+)
Belgium	19.988	17.290	+2.698
France	20.227	19.789	+0.438
Italy	17.467	15.588	+1.879
Sweden	3.480	3.067	+0.413
Iran	12.440	11.471	+0.969
Japan	120.787	102.100	+18.687
Thailand	5.280	3.025	+2.255
Ghana	3.613	1.891	+0.722
Sudan	17.053	15.546	+1.507
Zambia	2.393	1.239	+1.154
Peru	6.613	1.975	+1.638
Bulgaria	4.907	3.824	+1.083
Czechoslovakia	30.920	26.450	+4.470
Yugoslavia	20.147	18.992	+1.555

AVERAGE UNIT VALUE OF EXPORTS

Commodities	Unit	Unit Value \$	
		June-March 1966-67	1965-66
Oil cakes	Tonne	80.9	87.7
Tobacco unmanufactured	"	634.4	638.8
Pepper	"	762.7	886.9
Cardamom	"	6500.0	7090.9
Sugar	"	55.4	87.7
Cashew Kernel	"	1201.5	1131.9
Tea	KG	1.12	1.38
Coffee	Tonne	785.3	1038.3
Iron ore	"	6.90	7.34
Manganese ore	"	15.8	17.9
Cotton piecegoods			
a) Mill made	Sq. metres	0.19	0.19
b) Handloom	Metres	0.28	0.41
Jute manufactures	Tonne	448.7	435.7
Coir manufactures	Tonne	316.5	306.1
Leather undressed	Kg.	3.36	2.97

EASTERN ECONOMIST

OCTOBER 20, 1967

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Heading Towards a Blind Alley?

DISSATISFACTION WITH the working of the Life Insurance Corporation (LIC)—a public sector institution which came into being in 1956 through the nationalisation of more than 100 life insurance companies—was expressed by Mr Morarji Desai while addressing the Delhi Insurance Institute on October 10. He urged the LIC and other general insurance companies to conduct their affairs in such a way as to attract those who had hitherto kept themselves away from any kind of insurance. He also described life insurance and general insurance as the best means of mopping up savings in the country. His address was marked by a sense of realism exhibiting his conviction that the take-over of the life insurance industry had not been a success. His views regarding nationalised life insurance have gained special importance today because of the clamour by some politicians to nationalise general insurance and to bring the banks under "social control".

It may be recalled that the nationalisation of general insurance, social control of banks, government take-over of foreign trade, etc, had been recommended in May this year in a 10-point programme of the All-India Congress Committee. The debate on this subject has been kept alive by some members of the Congress party led by the Congress parliamentary party secretary, Mr Chandrashekhar and others of his way of thinking. In a press conference five days after the above-mentioned address by Mr Morarji Desai, Mr Chandrashekhar and his colleagues opined that "any effort to delay the execution of the 10-point programme approved by the All-India Congress Committee will be disastrous for the party". In other words, these learned persons would like the government to go ahead with the programme irrespective of its repercussions on the economy. The advice of these very people, when accepted in the past, landed us in a number of difficulties. This is amply borne out by the poor return on capital employed in the public sector undertakings.

The essence of economic progress is that we must obtain a high rate of return on every rupee invested in the economy. Whereas the profitability of the companies in the private sector has been satisfactory during the past decade, the public sector undertakings have given a very poor account of themselves. This may be illustrated with reference to the working results of Hindustan Steel Ltd which in 1965-66 employed a total capital of Rs 693.16 crores and yielded a gross profit of no more than Rs 20.65 crores. The rate of return in this case was about half the Bank rate; it means that the same capital, if invested in government securities, would have yielded a much higher return.

The Government of India is not unaware of the problems of the public sector undertakings. A number of steps are being taken in order to enhance their profitability though not much progress—except in a few cases—has been recorded so far. The not-very-cordial relations between the centre and the states in some cases have retarded the progress of many projects. A study group on centre-state relations in regard to the evaluation of plan projects recently suggested a three-tier system according to which the central evaluation agency in the Planning Commission, the evaluation units in each ministry and the evaluation agency in the planning departments of the state governments have been asked to go into the merits of each project before finalising it. All this is being suggested at this late stage when massive investment has already been made in the public sector undertakings and when considerable damage has been done. And there is no certainty that even this multi-tier system would work out the miracles that it is expected to. Instead of streamlining the working of the established public sector undertakings and raising the rate of return on the investment already made in the public sector, some of the misguided elements in the Congress party have been urging the unwise course of grabbing the private sector activities. Will the government fall in the trap being laid by these persons? If Mr Desai's address at the Delhi Insurance Institute is any guide, it is certain that the suicidal "10-point programme" would not go through.

Sugar Industry Needs Incentives

A VERY critical situation will arise in regard to the availability of sugar in the latter half of the 1967-68 crushing season (November-October) if the central and state governments do not provide the necessary additional facilities to the sugar mills for stepping up production. It has been pointed out by the South Indian Sugar Mills' Association and other organisations that there are certain difficulties which have to be overcome without delay if the objective of maximising output of refined sugar is to be achieved. It is generally forgotten that a serious crisis in regard to sugar availability was averted in the 1966-67 season because of the large carry-over from the previous season. With the abrupt decline in production to below 2.2 million tonnes in 1966-67 from 3.5 million tonnes in 1965-66, the scarcity of sugar would have been even more acutely felt if total availability was not around 3.1 million tonnes, thanks to the heavy accumulation of stocks with the industry in October 1966. The carry-over into the next season is not expected to be more than 300,000 tonnes which would mean that there would be an availability of only 2.5 million tonnes if, as apprehended in some quarters, the output in the new season did not prove to be more than 2.2 million tonnes. As the small stocks on hand cannot be eaten into further and there will be a problem of movement of supplies to different parts of the country later in 1967-68 if residual stocks were less than 200,000 tonnes, availability, even allowing for a further decline in carry-over stocks, will not be more than 2.3 million tonnes. If this situation arises it will be very difficult for the state governments to prevent a sharp rise in prices.

Even now, with the prospect of free sale of sugar being effected only from the beginning of the new year, sugar is reported quoted in the open market at around Rs 700 per quintal in Maharashtra while it is about Rs 500 in Madras and the neighbouring states. The shortage of sugar during the festive season has provided a golden opportunity to producers of gur and khandsari and those engaged in marketing these commodities. Gur is now quoting around Rs 300 per quintal in several states, and even at higher levels in acutely deficit areas.

Under these circumstances, it is imperative that sugar production of at least three million tonnes is ensured during November-October, 1967-68. This will not be difficult as it should be possible to secure for the organised sector a slightly larger proportion of the cane crop than usual. The exact size of the cane crop is not known but the industry does not usually consume more than 30 per cent of the total crop for making sugar. It may be necessary in the present context to raise this proportion to 35 per cent which is not an impossibility if only the government could take an immediate decision for permitting sugar mills to effect free sales even from November. On the plea that many units in the southern states will commence crushing for the season only in December and in Uttar Pradesh and Bihar crushing may be commenced in a big way later than usual, free sales are proposed to be permitted only from January 1968.

The government, in its anxiety to be sure about its

quota of 1.3 million tonnes, may not permit free sales until it is clear that a satisfactory trend of production had been established. This policy, however, would defeat the very objective it has in mind. Indeed, it has been suggested in some quarters that, on the basis of definite assurances and having regard to the performance of individual units in the past season, stocks with mills could be allowed to be sold in the open market to some extent so that the sugar mills concerned could secure the necessary funds for effecting cane purchases on a costlier basis and also enter into arrangements with cultivators of cane for disposal of their crop on some defined basis. The main difficulty has arisen on account of the fact that even the regular purchases of cane have become complicated in areas where sugar mills are in a position to commence regular crushing or mills are having special seasons as in Madras or Andhra Pradesh. Because of the high rates offered by gur and khandsari producers and the feeling that heavy premiums over the minimum revised prices will have to be paid by sugar mills in respect of free market sales, sugarcane cultivators have become alert and are not prepared to tender their supplies to sugar mills without definite assurances. It has been even suggested in some quarters—and rightly so—that a policy of complete decontrol

Eastern Economist 20 Years Ago

OCTOBER 24, 1947

That there is a definite food shortage in the country nobody can deny. This shortage can be made up by one or both of two ways—increased production and increased imports. As for the first, we at least entertain no illusions of marked expansion in the short period; consequently, we are not inclined to agree with the view that imports can be substantially reduced in the next year or two, or even that attempts if necessary at securing a larger amount of imports should not be made. The nation has been very inadequately fed all these years since 1942-43 and this is a very alarming state of affairs for a people, a large part of whom has not been eating enough even in normal years. The view has been often expressed that the prevailing unrest and a general attitude of lassitude and aversion to work in the world of labour is due largely to the chronic undernourishment of the working population on which has been superimposed the strain of hurried pace of war work. This suggestion ought to be taken more seriously than it has been hitherto, and for our part we have no doubt that a scientific sociological survey of cross-sections of the labouring population, agricultural and industrial, will show that it is the cumulative effect of malnutrition over a period of years that is reflected in the low output, the high rate of absenteeism, the tendency to down tools, which are working havoc with our production levels today. Viewed in this light, increased imports of food seem to be fundamental, if a physical as well as a psychological breakdown of the working population is to be avoided. To speak, therefore, of drain on foreign exchange in such a context seems to betray a lack of sense of proportion. First things come first, or ought to.

should have been announced as the new complications bid fair to create new problems which may baffle even the most experienced industrialists.

Since the objective is to ensure an output of at least seven million tonnes in two seasons, the new policy recently announced should be reinforced in many respects. First, sugar producers should be allowed to sell 25 per cent of the stocks of old season sugar held by them on the understanding that such releases would be replaced with equivalent quantities of new season sugar. Secondly, free sales should be permitted even out of current production up to 30 per cent in the months of November and December. Thereafter, the releases should be adjusted in a manner which will enable the government to recoup the depleted carry-over and at the same time compensate mills for the lower level of free sale in earlier months. Thirdly, a further rebate in respect of excise duty should be granted where the output of individual mills exceeds the production of the 1966-67 season by 25 per cent. These fresh incentives will enable sugar mills all over the country to compete actively for available cane supplies with gur and khandsari producers. The handicap experienced by the organised sector will be realised if it is pointed out that against the revised minimum price of Rs 73.70 per tonne, with a recovery of 9.4 per cent, gur producers are offering as much as Rs 130 per tonne. It will also be necessary to prohibit the movement of gur and

Power in Plenty

WITH THE commissioning of the Indraprastha (Delhi "C" station) Extension Project, power shortage in the capital will soon be a thing of the past. Under this extension scheme, three units, each of 62.5 MW capacity, are being added to the original two generating sets at this station, each of 18.3 MW. The first unit under the expansion programme was synchronised early this month; it is at present feeding 20 MW of electricity into the capital's transmission lines. The second generator will be ready in the next few days. The third one is expected to go on stream early next year. Not all the electricity to be generated by these three units, of course, will be for Delhi; one-third of it is to be supplied to Haryana which is collaborating in the scheme. But even then, apart from nearly 100 MW assured from the Bhakra-Nangal project, the capital will have by the end of the current financial year firm power generation capacity of the order of 260 MW, capable of supplying peak load to the extent of 198 MW, against an estimated demand of 180 MW. There may, thus, be a small surplus of electricity which may be supplied to the neighbouring industrial townships. The power supply position in the capital is expected to remain easy right up to 1970-71. By that year, an additional unit of 50 MW is proposed to be added to the Indraprastha project. In the intervening period, although the firm generating capacity will remain at 260 MW, the peak load supply is anticipated to go up to 228 MW in 1968-69 and 262 MW in 1969-70. In 1970-71, the peak load supply will be of the order of 300 MW.

The United States and Britain deserve the gratitude of the metropolis for this happy position. Both these coun-

khandsari from factory zones. Already, in Maharashtra, inter-district movement of gur has been banned while it has been demanded by the South Indian Sugar Mills' Association that exports of jaggery from Madras state should be prohibited. The union Minister for Food and Agriculture, Mr Jagjivan Ram, has recently stated that the centre is not quite in favour of restrictions on the movement of gur and khandsari perhaps due to solicitude for cane growers. But it must be recognised that indiscriminate conversion of cane into gur and khandsari will result in a serious waste of scarce resources, the recovery being very much lower when unscientific methods are used for crushing cane and boiling juices. The demand for sugar in 1967-68 will be very much higher than the usual level of 2.7 million tonnes because of an increase in the purchasing power of the rural population, following bumper harvests. It will not be surprising if on an average even three million tonnes of sugar was absorbed yearly in 1967-69. When such is the appetite of the sugar consumer, the affairs of the sugar industry have to be organised in an entirely different manner. As it may not be possible to build up again stocks of around a million tonnes as in 1964-66, and the industry has the requisite capacity for handling large cane supplies, ideological considerations should not stand in the way. Any decline in production in the coming years to below three million tonnes will have severe repercussions on the price structure of sugar, gur and khandsari.

tries have made available generous assistance for the Delhi "C" extension project. The US has provided financial help both in dollars and rupees—\$16 million for meeting the foreign exchange cost of the purchase of materials and services in the US and Rs 8.3 crores for financing the purchase of materials of indigenous origin and the services of Indian workers, engineers and other construction personnel. Britain has made available £1.36 million to meet the foreign exchange cost of the equipment bought from it. The US, of course, had assisted the setting up of the original two generating sets at this power station as well. These sets were supplied and erected by Japan, the US assistance being in finance—foreign exchange worth three crores of rupees and Rs 3.52 crores out of counterpart PL 480 funds.

The US contribution to the power development in this country, indeed, has been extensive though not widely known. It should be worthwhile recalling it here. The US has extended massive assistance—totalling Rs 382.58 crores in foreign exchange (\$510.1 million) and Rs 342.49 crores in the local currency—for augmenting power generation facilities through the length and breadth of our country. As many as 30 of our power projects have been assisted by it to varying degrees. The US has financed either the entire cost or the major portion of the cost of the following power projects: Amarkantak (Madhya Pradesh), Bandel (West Bengal), Barauni (Bihar), Chandrapura (Bihar), Dhuvaran and Durgapur extension (Gujarat), Durgapur and Durgapur extension (West Bengal), Indraprastha and Indraprastha extension (Delhi), Kanpur (Uttar Pradesh), Ramagundam "B" station (Andhra Pradesh), Sabarigiri (Kerala), Satpura

(Madhya Pradesh), Talcher (Orissa), Tarapur (Maharashtra) and Trombay extension (Maharashtra). The US aid accounts for somewhat smaller portion of the individual cost of the Ahmedabad extension (Gujarat), Alwar-Bharatpur-Dungarpur-Jaisalmer (Rajasthan), Barapani (Assam), Beas (Punjab), Nahorkatiya (Assam), Rihand (Uttar Pradesh) and Sharavathi (Mysore) projects. Several other projects, including Bhadra (Mysore), Chambal (Madhya Pradesh/Rajasthan), the Damodar Valley Corporation (Bihar/West Bengal), Hirakud (Orissa), Kosi (Bihar), Koyna (Maharashtra), Kundah (Madras), and Tungabhadra (Andhra Pradesh/Mysore) have received assistance out of the PL 480 counterpart fund. Together, the US-assisted power projects when completed will have an installed capacity of about 6.7 million kW. Besides the financial assistance, the US has made available services of a number of experts for the Central Water and Power Commission and to some individual projects (including power and energy surveys) and has also financed training of our engineers in the US. Another noteworthy contribution of the US in this field has been the setting up of the "hot line" maintenance school at Bangalore where our technicians are trained to repair electric power lines while they are energised.

Although with assistance from abroad, especially from the US, we have done rather well in developing our power resources, there is one fact that should cause us increasing

Self-Reliance in Fertilisers

THE FOOD and Agriculture Organisation (FAO), the International Finance Corporation (IFC) and the Government of India, all agree on the need to increase fertiliser production by the developing countries, for one of their greatest concerns is the problem of producing enough food for their growing millions. In the case of our country in particular, even though our fertiliser industry is beginning to expand rapidly, we are still a long way off self-sufficiency. If the gap between what exists today and the proposed fifth five-year Plan target of four million tonnes (nitrogen)—with corresponding increases in outputs of potash and phosphate—is to be fulfilled, it will need, according to Mr Martin M. Rosen, Executive Vice-President of the IFC, massive amounts of imports—of the order of about \$250 million annually on an average over the next five years. But, at today's prices, according to Mr J. R. D. Tata, if we were to assume that we would achieve a modest consumption of about 10 million tonnes of balanced nutrients by the year 1980, the foreign exchange cost of the raw materials alone would exceed Rs 500 crores per year, or about 50 per cent of our total export earnings at present. This certainly is an additional burden that we can hardly afford in the prevailing context of our balance of payments position. As Mr Tata put it the other day: "Yesterday we imported food, today we import fertilisers, tomorrow we will have to import the raw materials for the fertilisers at a foreign exchange cost which steadily spirals." This too ought to end and the sooner it happens the better. But what is being done about it?

All that is being done, it seems, is to continue with the present policy of depending upon "indigenous" naphtha

concern in the future, particularly in areas away from the main coal-belt of the country. It is the growing cost of thermal power in these areas. The cost of generating power at the Delhi "C" station, for instance, is presently estimated at 5.44 paise per unit, against about 3.5 paise a unit only a few years ago. The main reason for this high cost is stated to be the large ash content in the coal now being used for electricity generation and the long haulage involved for procuring coal supplies. With the recent nearly 25 per cent increase in the prices of coal, as a sequel to the implementation of the Coal Wage Board's recommendations, the cost of electricity generation at the Delhi "C" station should go up substantially. It is high time, therefore, that steps were initiated to have nuclear generation which may cost about 5.5 paise a unit.

There is also need to curb voltage fluctuations in the capital. These are attributed to the overhead transmission lines. The scheme to replace the overhead transmission by underground cabling, estimated to cost Rs 20 crores, is awaiting implementation due to lack of funds. Cannot some counterpart PL 480 funds be made available for this purpose? In view of the easy availability of power cables indigenously and copper having already been substituted by aluminium in the higher ranges of cable manufacture, the foreign exchange component of the scheme should be only meagre.

produced out of imported crude. (About five tons of crude must be imported to produce a tonne of nitrogen via the indigenous naphtha). This is to depend for something approaching 30 per cent of the commercial energy supplies (as estimated by the Energy Survey Committee Report) on the goodwill and political stability of suppliers of oil. The whole concept of making fertilisers from naphtha manufactured out of imported foreign oil is wrong, said Mr Tata categorically. The correct way is not the naphtha way. According to Mr Tata, at this rate, the whole future will be uncertain until we discover large deposits of oil and manufacture naphtha from indigenous sources of supply. Meanwhile, fears are already being expressed about the impending shortage of naphtha. In fact, the World Bank and the IFC have warned that there would soon be a world-wide shortage of naphtha.

Is there a way out of this dependence by us on naphtha imports a few years hence? Fortunately, yes. The dependence could be mitigated, for instance, if sufficient oil deposits are discovered within the country and we are able to produce enough naphtha—and possibly also diesel oil—from our own crude. But this seems uncertain. There is, however, a relatively more certain alternative, an alternative that has been explored by West Germany which has successfully exploited her coal deposits to achieve this objective. Hence the urgent call of Mr Tata for a thorough reappraisal of the government policies, which aim at basing ammonia manufacture on "indigenous naphtha produced from imported crude", before our fertiliser development programmes irrevocably and irretrievably commit us to large foreign exchange expenditures on the import of crude

oil. Inasmuch as the proved and inferred reserves of crude in the country are no more than 150 million tonnes, and cannot, therefore, wholly take the place of imported crude, Mr Tata believes that the only sound routes to the manufacture of totally and really indigenous ammonia lay through the use of the coal and the atom. Pending that, what is the answer?

The answer is to be found in the proposed Tata fertiliser complex at Mithapur, in Gujarat state, with "its massive, innovative and long-range programme making radical departures from the currently accepted and conventional lines of fertiliser development in our country"—a programme "related to, and based on, the utilization of the country's abundant natural resources in sea, sun and, hopefully, the atom."

A few details—these are tentative in that formal proposals are still to be submitted to the government—should be of interest. The programme is being undertaken with the collaboration of Allied Chemicals of the US. It is noteworthy that Allied Chemicals has agreed to participate, leaving the management entirely in Indian hands. It is, in fact, to be an extension of the activities of Tata Chemicals Ltd. When fully developed, the proposed Tata fertiliser complex would furnish about 2.3 million tonnes of balanced plant nutrients per year. This should suffice to increase food production by some 12-15 million tonnes per year, i.e., almost the peak annual imports of foodgrains so far envisaged by this country. Not a small gain!

The programme, which would be spread over eight years, is expected to satisfy three important criteria, namely (i) to give us large quantities of fertiliser materials in the shortest possible time to substitute large imports of fertilisers, which currently cost the country about Rs 250 crores a year in foreign exchange; (ii) increasingly to substitute the imported raw materials which go into the manufacture of fertilisers, and (iii) to pave the way for a totally indigenous and eventually self-reliant large ammonia facility, based either on nuclear power or on indigenous crude.

At the fully developed stage of the proposed complex, it is said, about 600,000 tonnes of ammonia per year would be required. Of this only about 200,000 tonnes can be produced from naphtha, the balance would have to be imported until it can be substituted by totally and really indigenous ammonia based on either nuclear energy or indigenous crude. Inasmuch as the Tata proposal also entails expending of foreign exchange (on ammonia, if not on crude), what is the net advantage, it may be asked. To this, the Tatas' answer is that, even by importing this much of ammonia, the project would earn and save over the first 10-year period, as much as Rs 100 crores and, thereafter, about Rs 20 crores a year. This is said to be possible because the new programme saves about 340,000 mtpy of sulphur (present price \$60 per tonne) through recovering sulphur and about 65,000 mtpy of potash from the sea, using Allied Chemicals' new technology for the production of phosphoric acid without sulphur, and using new and different technological routes for solubilising phosphate. Savings are also expected on the foreign exchange cost of bringing in phosphate rock through owning a fully mechanised and suitably tailored deep-water facility and the tie-up with Allied Chemicals, as also on naphtha. The latter is to be

achieved by using indigenous coal which we have in great abundance (123,000 million tonnes). It is further hoped to earn foreign exchange by exporting surpluses of salt and bromine recovered from the sea.

Besides fertilisers, the Tata complex envisages establishment of a series of integrated enterprises in the private, public and co-operative sectors. For harnessing the inexhaustible resources of the sea, the sun and the atom and for putting to use the barren lands of Okhamandal and the mineral deposits in the vicinity, Tatas visualise a massive agro-industrial complex centred on 1,200 megawatts of low-cost nuclear energy and coupled to desalination of sea water yielding 100 million gallons of fresh water daily. Among others, the proposed complex could include, it is said, production of seeds, pesticides, aluminium, magnesium, chlor-caustic, acetylene and acetylene chemicals and heavy water. Indeed, it sounds even more ambitious than the "agri-business" that Mr Rosen spoke of at the first international agri-business conference sponsored by the Chicago Board of Trade in May last. To be told that all this is within the range of the near-term technology is highly reassuring. Nor is there any doubt that it will very markedly contribute to the development of a self-reliant economy. But, apart from the Chandrasekhars and the Dharias, who may see in any big private sector venture such as this monopolies and concentration of economic power, for the Tata complex to succeed, the government must be bold and imaginative enough to recognise the shortcomings of its present fertiliser policy and reorientate it properly and promptly. Will it?



"Ahem, before I begin my speech will some one in the audience tell me if it is a surplus or deficit state where I now stand?"

Sales Tax: The States' Milch Cow

P. K. BHARGAVA

THE STATE governments in our country hesitate in imposing direct taxes for they are afraid of losing the confidence of the people. Moreover, the tax-collecting machinery in the states is not efficient in administering the direct taxes. Consequently, the reliance on indirect taxes has been increasing. The advantage of indirect taxes is that their cost of collection is low and the resistance from the people is almost negligible because the tax-payers do not know the exact amount that they are paying by way of taxes while buying the taxed commodities. This explains the fact that the contribution of sales tax (which is an indirect tax) in the tax revenue of the states has increased rapidly as will be clear from Table I. Its contribution was 26

TABLE I
GROWTH IN TAX REVENUE, LAND REVENUE AND
SALES TAX REVENUE IN ALL STATES*
(Rs. crores)

	1951-52	1961-62	1966-67 (Budget)
1. Total tax revenue†	227.70	483.70	917.93
2. Land revenue	47.99	95.23	120.48
3. Sales tax††	58.93	181.44	407.86
4. (2) as proportion of (1)	21.00	20.00	13.00
5. (3) as proportion of (1)	26.00	37.00	44.00

* Excluding Nagaland.

† Excludes share of central taxes.

†† Includes sales tax on motor spirit.

per cent in the states' total tax revenue in 1951-52 and increased to 37 per cent in 1961-62; this trend has continued in the subsequent years also. According to the states' budgets for 1966-67 the contribution of the sales tax in their tax revenue was estimated at 44 per cent. The contribution of sales tax increased from Rs 58.93 crores in 1951-52 to Rs 407.86 crores in 1966-67 (budget). Thus, it multiplied almost six times during the period under review. An essential characteristic of sales tax is, therefore, its buoyancy and flexibility in the states' tax system. In view of the rapid increase in the yield from sales tax, the contribution of land revenue in the states' tax structure has fallen to a low level. Land revenue contributed 21 per cent and 32 per cent in 1951-52 and 1956-57, respectively. Since then its percentage contribution in the states' tax revenue has continued to fall and in 1966-67 (budget) its contribution was as little as 13 per cent. The additional tax effort by the state governments during the third Plan also witnessed this trend (see Table II). The contribution of land revenue in the additional tax effort by the state governments during the third

TABLE II
ADDITIONAL TAX EFFORT BY STATES DURING
THIRD PLAN
(Rs crores)

1. Total (all taxes)	610
2. Land revenue and irrigation rates	74
3. General sales tax*	173
4. (2) as proportion of (1)	12 per cent
5. (3) as proportion of (1)	28 per cent

* Includes sales tax on motor spirit but excludes inter-state sales tax.

Plan was only 12 per cent while sales tax revenue contributed 28 per cent. It can, therefore, be concluded that sales tax occupies the same importance at present which land revenue occupied earlier in the states' tax structure. The growth of sales tax as a source of state revenue is not witnessed here only but in other countries also. Apparently the trend is world wide.(1)

The contribution of sales tax in states' tax revenue ranged from 18 per cent to 67 per cent during the third Plan as can be seen from Table III. Its percentage contribution was highest in Maharashtra where it amounted to Rs 251.39 crores. It can be seen from this table that in most of the states the contribution of sales tax exceeded 30 per cent of their tax revenue (excluding share of the central taxes) during the third Plan except in Uttar Pradesh, Assam and Jammu & Kashmir where it contributed 27 per cent, 29 per cent and 18 per cent, respectively. The per capita sales tax revenue ranged from Rs 2.39 in Jammu & Kashmir to Rs 15.39 in Maharashtra in 1965-66 (budget) as shown in Table IV (p. 727). The per capita sales tax revenue was Rs 3.09 in Uttar Pradesh which reflects the poverty and rural structure of this state. However, it should be pointed out that the states of Bihar, Madhya Pradesh, Orissa and Rajasthan have lower per capita income than Uttar Pradesh but

TABLE III
STATE TAXES AND SALES TAX REVENUE DURING
THIRD PLAN
(Rs crores)

States (1)	Total state taxes (2)	Sales taxes (3)	3 as per- centage of 2 (4)
Punjab	207.90	66.89	32.00
Madras	297.43	139.25	47.00
Madhya Pradesh	199.82	65.19	33.00
Mysore	183.65	67.29	36.00
Maharashtra	373.06	251.39	67.00
Bihar	221.89	76.61	35.00
Rajasthan	140.14	43.25	31.00
Kerala	148.39	71.16	48.00
Gujarat	186.55	92.61	50.00
Uttar Pradesh	364.85	95.60	27.00
Andhra	286.06	91.20	32.00
Assam	94.21	26.70	29.00
Orissa	77.43	33.16	43.00
West Bengal	337.67	148.01	44.00
Jammu & Kashmir	17.04	3.11	18.00
All States*	3136.09	1271.42	40.00

* Excluding Nagaland.

sales tax revenue per capita in these states was Rs 4.00, Rs 5.80, Rs 4.74 and Rs 5.79 in 1965-66 (budget), respectively, which suggests that poverty of the state is not the only cause of low per capita sales tax. Evasion of the tax appears to be one of the major causes of low yield.

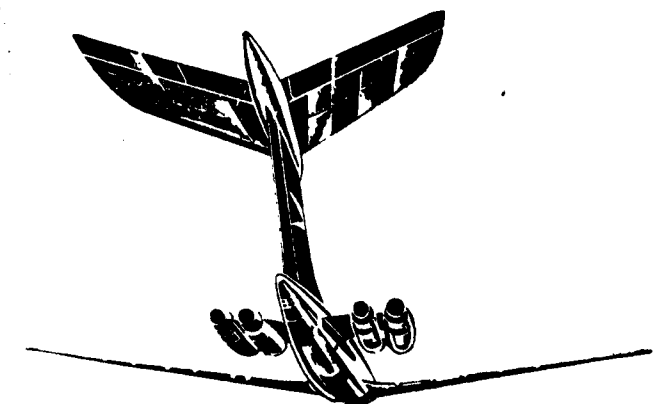
Sales tax is either single-point or multiple point. Single-point sales tax is imposed in West Bengal, Assam, Orissa, Punjab, Jammu & Kashmir, Madhya Pradesh and Rajasthan, while the states of Madras, Mysore, Kerala, Andhra Pradesh, Uttar Pradesh and Bihar impose multiple point sales tax. Under

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(1) See John F. Due, 'Sales Taxation', University of Illinois Press, 1957.

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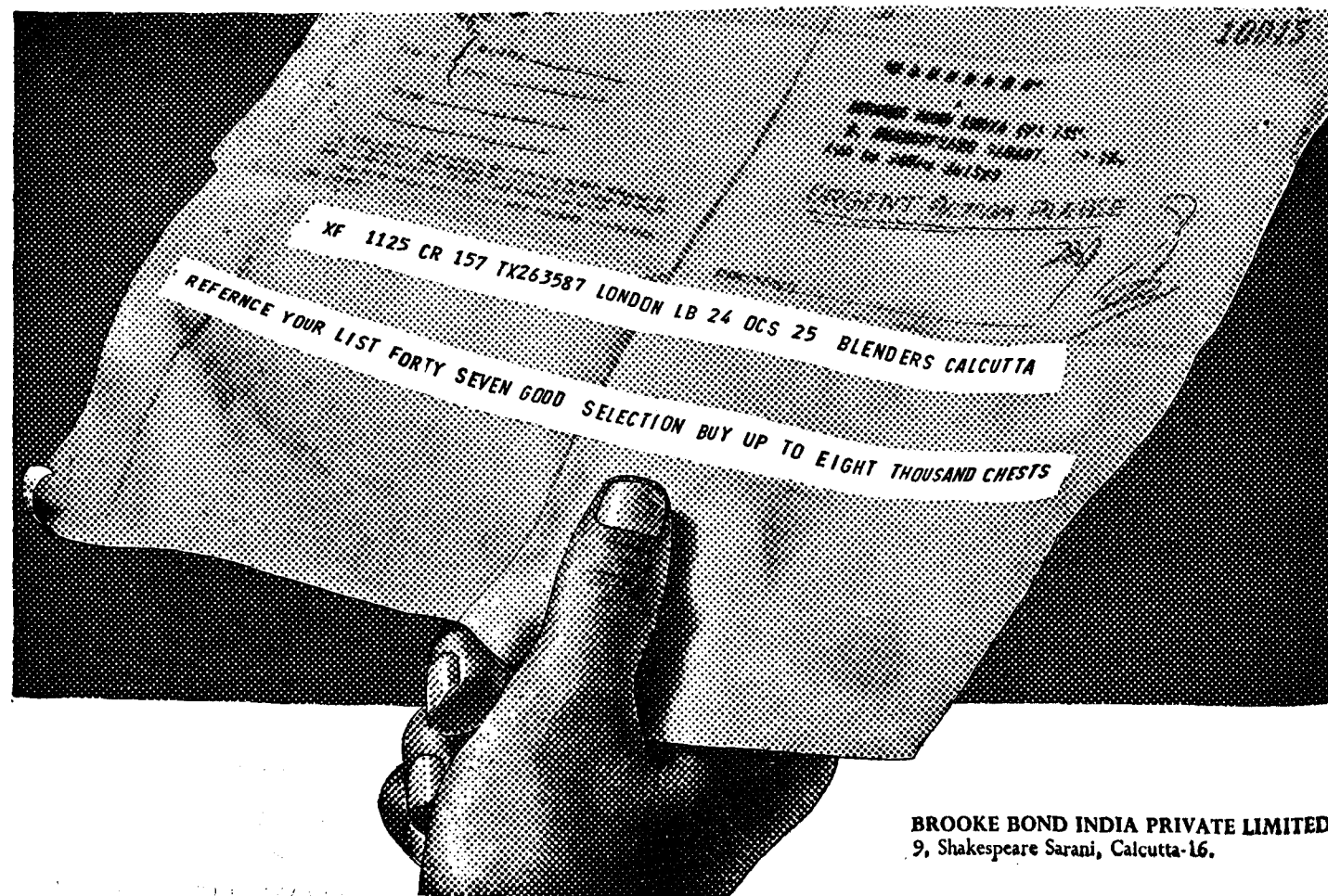
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the single-point taxation the tax is levied only at one point from the producer's to the final stage of consumption while under the multiple point taxation the tax is imposed on every sale till it reaches the final consumer. The multiple point system of taxation tends to eliminate the middleman and helps to check evasion. It encourages integration in production and thus helps in reducing the cost of production. The maintenance of accounts is much simple under the multiple point taxation. Under the single-point system of taxation, on the other hand, the dealers have to maintain separate account of sales to registered dealers or manufacturers, who are exempted from the tax, and to unregistered dealers from whom the tax is collected. The single general tax can be adopted when the number

TABLE IV
PER CAPITA SALES TAX REVENUE IN DIFFERENT STATES

States	Total popula- tion (lakhs)	Urban popula- tion (lakhs)	% of total popu- lation	Sales tax revenue in 1965-66 (budget) (Rs lakhs)	Per capita sales tax revenue (Rs)
Andhra Pradesh	360	63	17.44	22,00	6.11
Assam	119	9	7.69	7,36	6.20
Bihar	464	39	8.43	18,56	4.00
Gujarat	206	53	25.77	22,38	10.85
Jammu & Kashmir	36	6	16.66	85	2.39
Kerala	169	25	15.11	17,45	10.32
Madhya Pradesh	324	46	14.29	18,79	5.80
Madras	337	90	26.69	34,81	10.33
Maharashtra	395	111	28.22	60,86	15.39
Mysore	236	53	22.33	17,25	7.31
Orissa	175	11	6.32	8,32	4.74
Punjab	203	41	20.13	17,00	8.37
Rajasthan	202	33	16.28	11,67	5.79
Uttar Pradesh	737	95	12.85	22,57	3.06
West Bengal	349	85	24.45	35,69	10.22
All States	4313	761	17.65	315,56	7.32

of retail distribution points is very large, and is mainly represented by small shop-keepers. The added value tax always has the advantage, as compared with the single general tax, of spreading the burden of tax over all stages in the process of production and distribution, and thus of avoiding secondary distribution which may arise at the point of impact when a tax is levied on a single occasion.(2)

By and large the interests of one state clash with another, hence a state should not be allowed to tax the residents of other states. It would otherwise lead to inter-state jealousies which may cause hardship to trade and industry. It would also endanger the integrity and unity of a country such as ours with a federal setup. If a state has a monopoly or is an importing centre for other states, it is possible to tax commodities the burden of which will fall on the residents of the states where these commodities are ultimately consumed. These difficulties have been envisaged and anticipated in the Constitution. Clause (2) of Article 286 of the Constitution states that "except in so far as Parliament may by law otherwise provide, no law of a state shall impose, or authorise the imposition of a tax on the sale or purchase of any goods where such sale or purchase takes place in the course of inter-state trade or commerce." Further, the Central Sales Tax Act, 1956, has restricted

the power of the state governments to levy tax on certain commodities which are of special importance in inter-state trade and commerce. Goods specified in this Act are coal, iron and steel, raw jute, cotton, oilseeds and raw hides and skins. In respect of these commodities, sales tax on transactions within a state is not to exceed two per cent and is not to be levied at more than one stage.

Since 1957, sales tax on mill-made textiles, tobacco and sugar has been replaced by additional duties of excise levied and collected by the union government along with basic excise duties on these articles. The proceeds were to be distributed among the various states guaranteeing each state the amount which it received from these articles in 1956-57 and the excess amount, if any, was to be distributed on the recommendations of the Second Finance Commission. Subsequently, the matter was referred to the Third and Fourth Finance Commission also for making recommendations on this subject. Many state governments have opposed the replacement of sales tax by additional excise duties on mill-made textiles, tobacco and sugar because sales tax on these commodities of mass consumption has deprived these states of a legitimate and growing source of revenue. Their complaint, to some extent, is justified because the share of the additional excise duty allocated to the states has not increased in proportion to the additional revenue earned by the states from the sales tax on these commodities. A large number of states have resented this change because they have interpreted it as an encroachment on their financial autonomy by the central government. It may be pointed out that sales tax may well be essential to the states if they are to maintain financial autonomy(3), because this is the only source of revenue in their tax system which is growing in nature and has the characteristics of built-in flexibility and elasticity. The Saraiya committee on sales tax has pointed out that with the existing distribution of the sphere of taxation between the centre and the states sales tax is now the chief elastic source of revenue to the state governments. The state governments, therefore, are understandably reluctant to agree to give up their right to levy sales tax on any commodity. Whatever may

TABLE V
ARREARS OF SALES TAX REVENUE IN STATES

States	At the end of				
	1960-61	1961-62	1962-63	1963-64	1964-65
Andhra Pradesh	3.71	3.32	3.63	3.31	...
Assam	0.70	0.68	0.71	0.83	...
Bihar	1.59	1.53	1.63	1.68	2.65
Gujarat	...	0.78	0.79	0.91	1.02
Jammu & Kashmir	...	...	...	...	...
Kerala	3.05	3.68	3.43	3.87	...
Madhya Pradesh	0.79	0.90	1.11	1.30	1.56
Madras	2.00	2.60	2.96	2.79	3.57
Maharashtra	4.87	5.87	6.47	7.67	...
Mysore	1.75	1.79	1.82	1.84	...
Orissa	1.70	1.89	2.54	2.49	...
Punjab	0.52	0.81	0.58	0.61	...
Rajasthan	...	0.36	0.53	0.80	1.03
Uttar Pradesh	6.86	7.92	9.64	10.81	11.72
West Bengal	11.30	13.93	14.96	15.74	...
All States*	38.84	46.06	50.80	54.65	21.55

* Excluding Nagaland.

(2) 'The Influence of Sales Taxes on Productivity' (Published by the European Productivity Agency of the Organisation for European Economic Co-operation) OEEC; Paris, 1958; p. 254.
(3) See John F. Due, 'Sales Taxation', p. 230.

be the justification for centralising the sales tax on these three commodities, the fact remains that the state governments have been deprived of a dependable and increasing source of revenue.

In the present context of financial stringencies of the state governments, the problem of evasion and mounting sales tax arrears needs special attention of the tax administrative machinery of the state governments. Though it is difficult to estimate the exact extent of sales tax evasion, yet it is certain that a considerable amount of revenue is lost by the state governments by way of evasion. The UP Sales Tax Committee, which was appointed by the state government in 1962 under the chairmanship of Mr Jai Ram Verma, the then Deputy Finance Minister, endorsed this view and the committee was of the opinion that high rates of sales tax are responsible for evasion. However, the committee failed to arrive at any definite conclusion about the extent of sales tax evasion in Uttar Pradesh. The Government of India should appoint a committee to look into the problem of sales tax evasion in different states. This committee should suggest various ways and means to governments in the states to minimise the problem of evasion as much as possible. An efficient and honest tax administrative machinery is required not only for checking sales tax evasion in different states, but also for tackling the problem of mounting sales tax arrears. The sales tax arrears for all the states together

had risen from Rs 38.84 crores in 1960-61 to Rs 54.65 crores in 1963-64, which subsequently declined to Rs 21.55 crores in 1964-65 (see Table V, page 727). The sales tax arrears are cumulatively increasing in the states of Maharashtra, West Bengal and Uttar Pradesh. In Maharashtra sales tax arrears rose from Rs 4.87 crores in 1960-61 to Rs 7.67 crores in 1963-64 and in the case of West Bengal these arrears increased from Rs 11.30 crores in 1960-61 to Rs 15.74 crores in 1963-64. The increase in sales tax arrears has been faster in the case of Uttar Pradesh. In this state sales tax was in arrears to the tune of Rs 6.86 crores in 1960-61 which increased to Rs 10.81 crores in 1964-65. According to the present official estimates the sales tax arrears at the end of 1965-66 amounted to Rs 13.25 crores in Uttar Pradesh. It cannot be overemphasised that the realization of sales tax arrears will greatly strengthen the financial position of the state governments. Some of the arrears may be due to stay orders passed by the law courts, but most of it seems to be due to the laxity in recovery on the part of the tax administrative machinery. An honest and efficient tax administrative machinery is required not only for this purpose but also for checking the evil of sales tax evasion. The states have failed to do much in the direction of both correct assessment and quick recovery. The central government should come to their help and provide them with the required type of tax administrative machinery.

Tardy Growth of Steel Industry

R. AIYAR

THE IMPORTANCE of steel arises mainly from the crucial role it plays in economic growth of a country. Our reserves of iron ore are considered the largest in the world, estimated at 210,000 million tons. Of these deposits about 22,000 million tons are of very high grade. In view of the importance of steel as the base for engineering and allied industries and the vast ore resources in the country, our planners have laid great emphasis on the expansion of steel capacity.

The expansion of steel industry however has certain limitations. New capacity in steel takes a very long time to establish. This is not only because of the time it takes to install plant and equipment, but, even more important, due to the much longer period needed to set up ancillary facilities like coal and iron ore mines, railway links and power supply. This long gestation period, coupled with the highly capital-intensive nature of steel plants, has been one of the reasons for the aggravation of inflationary tendencies in our country. In fact, the large outlays on steel expansion amount to deficit financing in a concealed form.

The investments in steel and other heavy industries cannot by their very nature give adequate returns in terms of extensive employment or quick output. In the case of the Bokaro steel project, for instance, the cost of the first phase of 1.7 million tonnes of capacity has been estimated at Rs 680 crores. Yet the plant will not produce even an ounce of steel during the fourth Plan period. This fact has already caused serious concern to the union Finance Ministry, whose chief problem of late has been to restrain inflationary pressures.

The devaluation of the rupee has severely hit the steel industry in more ways than one. Firstly, the cost of production of finished steel has increased because of the imported items which go into steel production like sulphur, ferro-alloys, zinc, tin, etc. Secondly, the cost of steel expansion has increased steeply owing to the enhanced price of imported plant because of devaluation. A study made by the union Steel Ministry some time ago showed that the cost of implementing the fourth Plan steel programme would go up by as much as Rs 250 crores. The steel programme, as approved by the Planning Commission shortly before the rupee was devalued, was estimated at Rs 1,261 crores. It included the Bokaro project, expansion of the

existing public sector plants, and preliminary work on the fifth and sixth steel plants. The draft outline of the fourth Plan also includes these proposals, but has made firm provision only for the expansion of the existing plants and Bokaro (see Table I).

TABLE I
STEEL CAPACITY TARGETS BY THE END OF
FOURTH PLAN,

(In million tonnes)

Project	Capacity by 1970-71	
	Steel ingots	Pig iron for sale
Public Sector		
Second expansion of Bhilai	3.2)	0.90
Second expansion of Durgapur	3.4)	
Second expansion of Rourkela	2.5	...
Bokaro (Production to commence only in fifth Plan)	1.7	0.90
Mysore Iron and Steel Works, Bhadravati (its entire production will consist of alloy and tool steels)	...	0.10
Talcher complex	...	0.16
Pig iron plant at Barbil in Orissa	...	0.10
Total	10.8	2.16
Private Sector		
Tata Iron and Steel Co.	2.2	
Indian Iron and Steel Co.	1.3	0.30
Pig iron schemes in private sector	...	0.50 to 0.70
Electric furnaces	0.5	...
Total	4.0	0.80 to 1.00
Grand Total	14.8	2.96 to 3.16

Devaluation has made the expansion of capacity in the public sector alone costlier by Rs 165 crores in terms of rupees, assuming that our costs will rise by only 5 per cent during the period of expansion (this is obviously a gross underestimate). Even the expansion of the three public sector steel plants may

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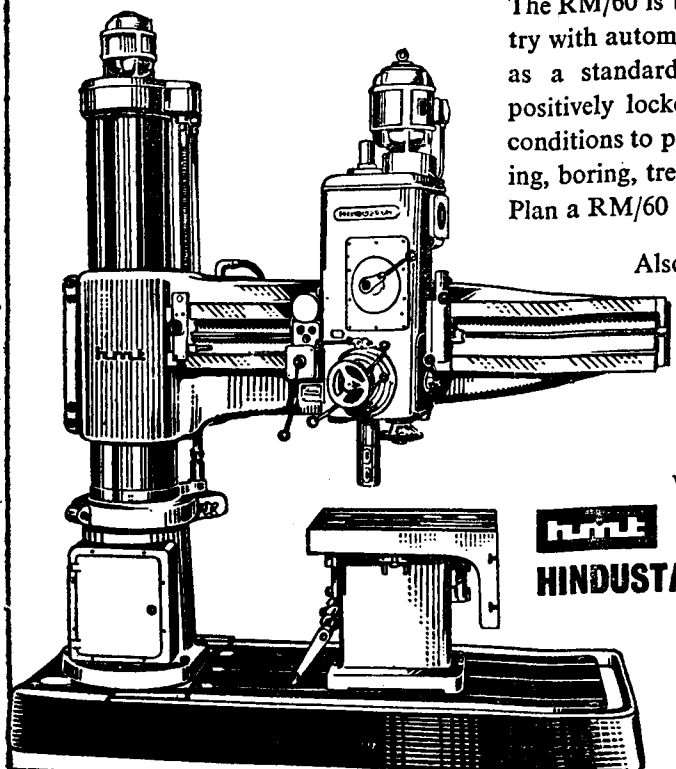
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cost Rs 22 crores more on a rough estimate since part of the foreign equipment for Durgapur and Rourkela has yet to arrive. The cost of the second expansion of Durgapur has already been revised upwards from Rs 220 crores to Rs 252 crores, and if the foreign exchange costs are not met within the credit of £60 million in view of the increase in machinery prices in Britain during the last couple of years, another £10 million or Rs 21 crores will be required. Including the increase in the cost of Bokaro project by Rs 56 crores, the total rise in the cost of steel expansion in the public sector, in terms of the targets visualised in the draft outline of the fourth Plan, will be Rs 128 crores. If prices keep rising at the present rate, the cost may rise by well over Rs 165 crores.

Steel targets have undergone several alterations in the last few years depending on the demand projections and inspired guesses of the perspective planners. Since all approximations were based on the same growth model, assuming that the economy would be expanding at a certain rate during the Plan period, there was naturally some broad agreement among the estimates which ranged from a little under 10 million tons of ingot steel to just over 11 million tons for 1965-66, and between 16 million tons and 18 million tons for 1970-71. That these various estimates differed only within narrow limits did not necessarily enhance their reliability, as was often assumed, but merely underlined the fact that they all started from the same premises.

Pragmatic Estimate

But there were some pragmatists, notably in the private sector, who had always felt that it would not be practical to plan for more than 14 million tons of production by 1970-71, which was 5 million tons more than the capacity planned under the third Plan. The chief considerations which weighed in arriving at the 14-million-ton figure were the constraints placed by foreign exchange requirement, which, at a rough guess, was placed at 50 per cent of the total cost of a new integrated steel plant, and the physical difficulties in establishing fresh steel capacity. The difficulties relate not to the erection of the steel plant proper, which is a compact construction job and can be handled on the basis of the considerable experience that already exists in the country. The real difficulties arise when it comes to the opening up of new mines, especially deep mines for coking coal and the corresponding increase in washery capacity. It has been estimated that each ton of steel output will need to be supported by 2½ tons of raw coal. This gives an idea of the great expansion in coal production that will have to take place to sustain each million tons of new steel capacity.

Another difficulty in a rapid expansion of steel capacity arises from the fact that much of the additional production of coking coal will have to come from new deep mines, as the one that the National Coal Development Corporation is developing at Sudamdih with Polish aid. It may take up to seven years to sink a deep shaft and bring a mine into full production; this indicates that there is a danger of steel expansion being held up by the lack of the requisite coal. Besides the technological limitations to speedier development of coking coal resources, there is considerable financial uncertainty. The coal needed to support a million tons of steel capacity will call for an outlay of Rs 50 crores on mining development alone. The foreign exchange component of this expenditure was some time ago estimated at \$33.3 million and in the case of large and deep mines the foreign exchange requirement is considerably higher. When the Steel Ministry was thinking in terms of producing 18 million tons of steel by 1970-71, the corresponding requirement of coking coal was put at 45 million tons and an additional 10 million tons to meet the demand of merchant cokeries and others.

The fourth Plan steel target has been stepped down to a more realistic level, thanks to the cold douche of realism which the aid-givers administered. The draft outline of the fourth Plan published in August this year envisages a total capacity

of 14.8 million ingot tonnes by 1970-71. This total is to be made up by expanding the existing units as shown in Table I. It is highly doubtful if even this reduced target is going to be achieved. The Planning Commission has frankly confessed that "although a capacity of about 14.8 million ingot tonnes is aimed to be reached by the end of the fourth Plan, the production is likely to be of the order of 11.7 million ingot tonnes or 8.8 million tonnes of finished steel." This pessimism is born of the fact that the second extension of the Rourkela plant, marginal expansions of the two private-sector plants, and the first stage of the Bokaro project will be completed only when the fifth Plan is half-way through. In fact, scepticism has been expressed whether even a total capacity of 11.7 million ingot tonnes can be achieved by 1970-71.

The demand for finished steel by 1970-71 has been estimated at about 10.5 million tonnes, which corresponds to an ingot output of 14 million tonnes. But the yield of finished steel from an ingot production of 11.7 million tonnes (which the planners consider to be the likely output by the end of the fourth Plan) will be 8.8 million tonnes, or 1.7 million tonnes short of the potential demand during that period. The Planning Commission says that imports are likely to continue at about one million tonnes for each of the first three years of the current quinquennium, and rise during the next two years. While this emphasises the need to speed up the completion of the expansion programmes, the Durgapur plant extension acquires especial significance. This is because the second extension project will concentrate on the production of flat products, which are badly needed. While the importance of the Durgapur project has been recognised by the planners, it is highly doubtful if the second extension of this plant from 1.6 million to 3.4 million tonnes will be completed on schedule, even if the construction work starts by April 1967. This is because the final agreement with BRISSEL, the British consortium which will handle the expansion job, is yet to be signed. This apart, the second expansion is a big and time-consuming job, covering as it does the erection of three new blast furnaces, three new coke-oven batteries, three LD converters of 120 tonnes capacity, and rolling mills. In fact, even the first expansion of Durgapur from one million to 1.6 million tonnes, which ought to have been completed during the third Plan, is still under way.

Rourkela Expansion

The picture is no brighter in the case of Rourkela either. The first expansion of this plant from one million to 1.8 million ingot tonnes was expected to be completed only by mid-1967. Its tardy progress was partly due to the off-loading of job supplies by Pakistan at Karachi port during the 1965 fighting. The plan to expand Rourkela from 1.8 million tonnes to 2.5 million tonnes has made very little progress since even the project report, which was expected to be submitted to the West Germans by September 1966, is not yet ready. The Central Engineering and Design Organisation of Hindustan Steel, which is preparing the project report, is likely to complete the job only by the end of this year. Reports from Bonn have blamed our Steel Ministry for delaying the report, in the absence of which, it is contended, the former would not be able to make any commitment. While there may be some truth in this, the fact cannot be lost sight of that West Germany has been one of the few countries which has not indicated its aid commitment for the first year of the fourth Plan for reasons of its own. Thus in any case the Rourkela expansion programme would have been held up. The second expansion is expected to cost about Rs 125 crores, which will bring the total capital cost of the plant of 2.5 million tonnes up to Rs 500 crores, inclusive of the investment on all ancillary facilities such as mines, township and the infrastructure.

A special point about Rourkela's first expansion (currently under way) is that it will introduce to this country for the first time continuous cold-rolling of sheets featuring a five-stand tandem mill, continuous pickling line, and two continuous galvanising lines. Under the second expansion, continuous casting of steel on a large scale will be introduced. This plant will

produce 400,000 tonnes of wide slabs for the manufacture of heavy plates and 300,000 tonnes of blooms for the production of high-strength low-carbon construction steels.

In contrast to Rourkela and Durgapur, Bhilai has made much progress. The first expansion of the plant from one million tonnes to 2.5 million ingot tonnes has been completed. The fourth Plan expansion programme seeks to raise its capacity further to 3.2 million tonnes at a cost of Rs 72 crores. The expansion is envisaged in two phases, the first phase consisting of coke and iron-making facilities and the second phase of steel-making and rolling facilities. The project report on the first phase has been got ready long ago, and it is quite on the cards that the second expansion will be completed within the current quinquennium, all the more so because it is proposed to make it essentially an indigenous programme with the help of our own know-how and equipment manufactured by the Ranchi heavy engineering complex.

Unfortunately there has been a slack in the demand for Bhilai's products because of the slowdown in the economy and, particularly, the sharp curtailment of the railway expansion programme. Hence the fifth blast furnace at Bhilai has not been commissioned at all although it was completed last January. This, combined with the slow progress of the expansion projects of Durgapur and Rourkela, unmistakably indicates that the country may hardly be able to produce around 10 million ingot tonnes or about 7.5 million tonnes of finished steel by the end of the fourth Plan.

As far as the surplus steel from Bhilai is concerned, we have been trying to find export markets, particularly in south-east Asian countries and Africa. In 1965-66, we were able to export 470,000 tonnes of surplus steel at Rs 11.15 crores, and it is proposed to step up exports to 600,000 tonnes during the current year. This target will be shared by Hindustan Steel and the two private-sector steel plants in the ratio of 3 to 2. Trade missions have been sent to foreign countries with a view to finding markets for our surplus steel, which includes not only rails and structurals turned out at Bhilai but also pipes produced at Rourkela.

Basic Difficulty

But the basic difficulty in marketing our steel abroad is its high cost. The devaluation of the rupee has, no doubt, improved the competitive position of our steel to some extent. Nevertheless, the handicap persists and our steel exports have to be subsidised. There is a move to raise the ceiling of 15 per cent on subsidies to steel products, particularly to push the sales of difficult items like structurals, coils and chequered plates. Other items for which export markets are sought are rails, bars and rounds, billets and pig iron. The c.i.f. price of several comparable categories of steel imported from Japan and the United Kingdom is below that of our products.

Unless several major steps are taken to restore to our industry the cost advantage it once enjoyed, subsidy will have to be an indispensable element in the export promotion measures. Several factors have pushed up the cost of steel production in our country. The Mahtab Committee, which submitted a report to the government on cost reduction in the steel industry, has pointed out that coal has been the most important cost-raising material in the steel industry. The high cost of coal has been attributed by the committee to the deterioration in the quality of coal, which has compelled steel plants to use an increasing proportion of washed coal. The committee has suggested that government should make joint sampling at the destination statutorily obligatory on the suppliers to ensure the supply of quality coal. Even more important, it is essential that the raising of minerals and the subsequent work on upgrading should be made more efficient. Improvement of

mining operations requires a structural change in the character of the industry. By and large, mining enterprises in the private sector, excepting half a dozen odd big producers, are small and fragmented, and suffer from a paucity of resources to carry out programmes of cost-saving mechanisation.

Our steel plants are also burdened with heavy overheads. Although wage rates here are much behind those in advanced countries, this advantage has been more than neutralised by overmanning. While this could not be helped in the older steel plants for historical reasons, even the public sector plants allowed employment to exceed the sound norms. This apart, our mills have had to pay more for equipment than their counterparts in advanced countries for various reasons. Firstly, freight and insurance inflated their costs by anything up to 10 per cent of the price. Secondly, project aid tied to purchase in a particular country tends to inflate prices. Thirdly, as the proportion of foreign purchases declines with the increasing availability of indigenous equipment, buyers (both steel plants and the supporting industries) will have to accept a larger burden because of higher indigenous costs as is the case with Bokaro project. Lastly, our plants have been compelled to carry much larger stocks of equipment spares than is normal elsewhere simply because foreign suppliers are far away and imports have been uncertain.

Thus, the deteriorating quality of the raw materials used in steel production, the increase in the cost of raising them because of inflation and other factors which have inflated costs have together made our steel uncompetitive in world markets. This explains why even after a 57½ per cent devaluation, our steel cannot move abroad without the help of export subsidies.

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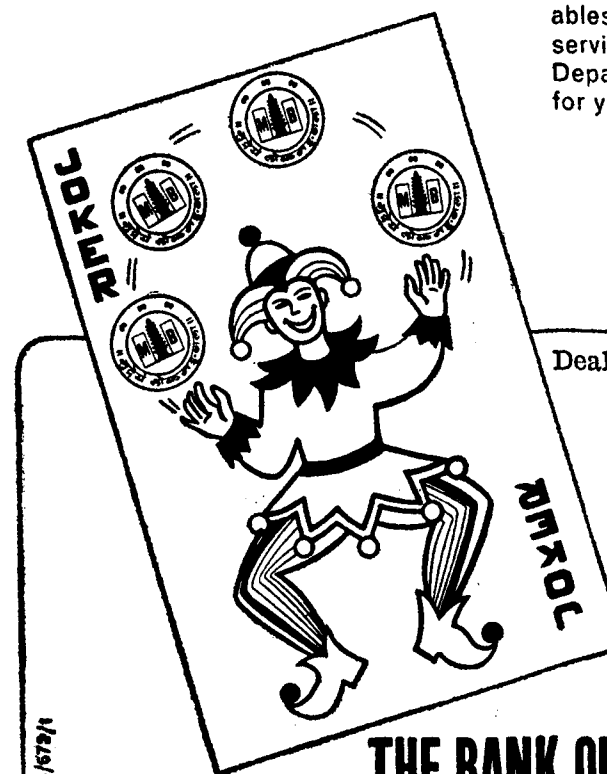
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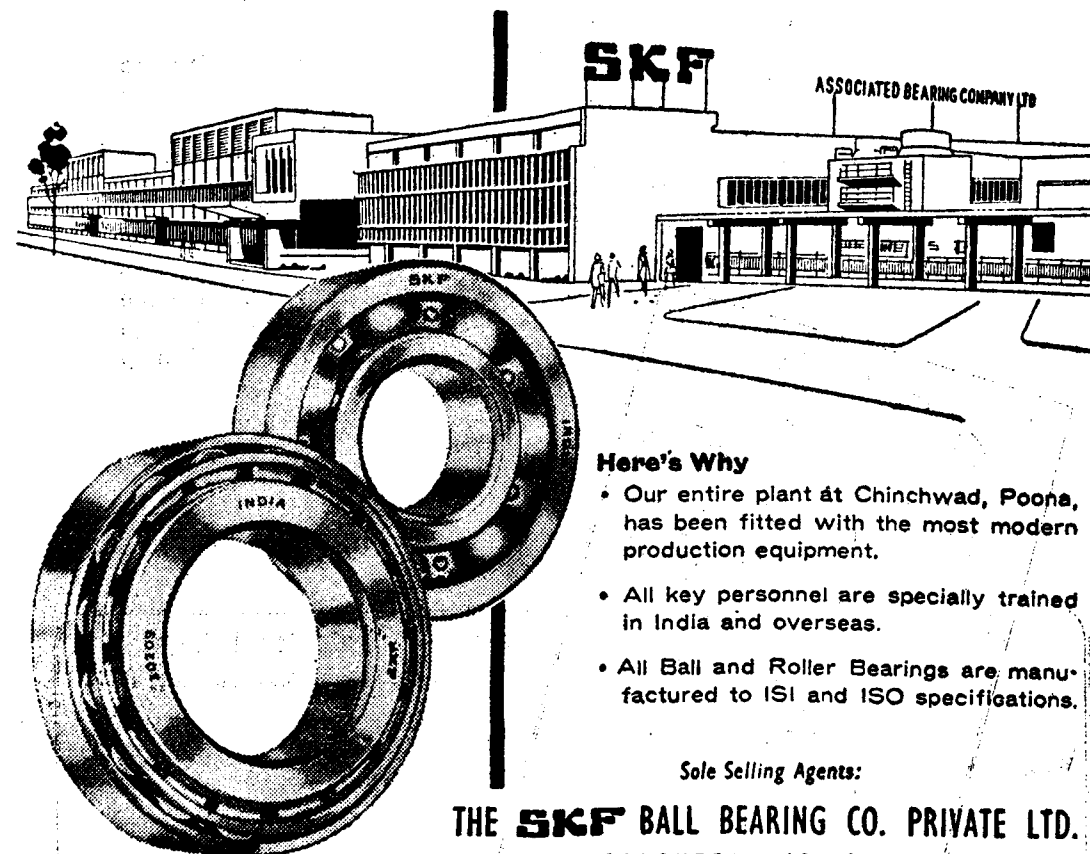


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FROM THE CAPITAL'S CUPBOARD

Towards Rooting Out Smuggling

"THE EXPENDITURE on the customs department in India is only 0.9 per cent of the customs revenue and this very low cost of collection—it is 5.2 per cent in the USA—appears to have been reached at the cost of essential needs in manpower, equipment, training and staff contentment", says the study team on the customs department in its report to the government.

While recognising that there is no rational basis for estimating the extent of smuggling into our country, the study team is certain that smuggled goods worth over Rs 100 crores find their way into the country every year. The large profit-margins that smuggling now offers and the greatly increased speed and facility of international travel and communications have made smuggling a highly organised affair—a chain of many links, both local and foreign, each link quite often specialising in some particular stage of the operation and receiving its share of the spoils. The report stresses that "this is in fact the most important aspect of today's smuggling and calls for the utmost in the skill and devotion of the officers".

Referring to patrolling, which is the common method of controlling the borders, the report says that no scientific study seems to have been made of the requirements for this purpose and whatever patrolling is done does not afford adequate cover. Urging that a comprehensive scheme should be drawn up for keeping under surveillance, both as a regular measure and by surprise, the sea and the land borders, the report says that "the aim should be to have more intensive patrolling in the vulnerable parts of the border, e.g., Saurashtra coastline, the coastline north and south of Bombay, and the coastline facing Ceylon and surprise patrols over the rest of the border. The coastline patrolling should also seek information concerning unauthorised landings of aircraft. The scheme should cover provision of men, vehicles and other equipment, location of watch and other stations and overall supervision. It should also provide for prompt communication to central points of all material information".

Such a comprehensive scheme of patrolling and other checks would involve additional outlay in terms of men, and equipment. But in the opinion of the study team "the additional outlay should, however, be more than made up by the results both in terms of the value of seizures and even more importantly the general increase in the overall effectiveness of the preventive network".

According to the study team, the headquarters organisation, as it is now constituted, cannot fulfil some of its important functions. At present, a member of the Central Board of Excise and Customs is in charge of preventive matters, while co-ordination of intelligence and investigation work is entrusted to the Directorate of Revenue Intelligence. The report emphasises that unified control, direction and co-ordination are necessary in these matters. The network of preventive arrangements has to be devised with due regard to the pattern and methods of smuggling. The features of this network may alter from time to time and even from region to region within the country. But, says the report, "one thing must remain constant, and that is the network should be single and under unified control, with clear lines of authority flowing from the point of unified control at the top through various levels of hierarchy to the many points of primary operation so that there is neither any duplication or overlapping nor any gap".

KENNEDY ROUND

Our country has taken up with individual countries, the "unfinished tasks" of the Kennedy Round. The most important of these is the question of securing immediate implementation of the tariff cuts negotiated in the Kennedy Round. According to the time-schedule that has been worked out, the tariff cuts

are to be phased over a period of five years beginning January 1 or July 1, 1968. All developing countries have urged that the benefits of these cuts should be made available to them fully from January next year without phasing. The government has instructed its ambassadors in the USA, France, West Germany, Switzerland and Japan to take up this matter at the highest level of the governments to which they are accredited and to press for implementation of the tariff cuts in their entirety from the beginning of next year. They have also been asked to discuss with them certain unresolved problems so that solutions to these could be found before the second UNCTAD meets in New Delhi next February.

The Kennedy Round of negotiations has resulted in gains as well as losses to this country. The gains are in the markets where our products do not get any preferential treatment, i.e., the USA, the EEC, Japan and the Nordic countries, through reduction of duties. The losses will be in countries in which our products enjoy preferences, i.e., the UK, Canada, New Zealand and Ireland, due to scaling down of preferential advantages.

DISSIDENT STATES

The government is faced with a piquant situation because of the refusal of four states—Punjab, Haryana, Madhya Pradesh and Bihar—to accept the procurement prices fixed by it for the coming season. These states insist on paying more than what the centre has fixed for the foodgrains they procure, if they pay higher prices to the producers, it will throw into confusion the plans for distribution and for building up of a buffer stock.

The four states put together are expected to contribute 700,000-800,000 tonnes of rice to the central pool. If the centre refuses to pay the higher prices and if these states consequently withhold their supplies, the former will either have to cut down its commitments in respect of public distribution or make good the deficit by imports. This will leave surpluses in the hands of these states, which they will not be able to dispose of because of the restrictions on inter-state movement of foodgrains. This may cause distress among the producers and may eventually affect food production in these states.

If the centre takes a hard line, the consequences will have political overtones as the four states are in the control of parties other than the Congress. On the other hand, if it agrees to their demand for higher procurement prices, there is the danger of foodgrain prices rising in spite of a good crop. The centre's dilemma is how to make these states fall in line with its scheme of procurement prices without adding to the strain on centre-state relations.

EXPORT OF COTTON TEXTILES

Our country has successfully concluded negotiations with the EEC Commission for the export of cotton textiles to the Common Market countries. An overall quota of 7,800 tonnes has been agreed upon. This is nearly four times more than the quantity exported to these countries in previous years. Our ambassador at Brussels, Mr T. Swaminathan, is now conducting negotiations with individual countries of the ECM regarding the specific quantities to be exported to each of them.

ENGINEERING EXPORTS TO W. GERMANY

The Market Development Fund Committee has approved a project for Indo-German technical co-operation for stepping up our engineering exports to West Germany. The rupee part of the expenditure, to be incurred by the Government of India over a period of two years from October 1, 1967, amounts to Rs 530,000. The West German government has made a provision of DM 1.75 million for the same period.

WINDOW ON THE WORLD

Fertilisers and the World's Food

JOSSLEYN HENNESSY

THE PROBLEMS OUTLINED

LONDON :

THE SUPPLY of food in the developing countries is about 25 per cent short of what seems, in the light of current medical knowledge, to be the physiological requirement (the FAO short-term nutritional target). To close this gap, to provide for increases in population (quite apart from progress beyond mere physiological needs) calls both for a vast rise in agricultural production in the developing countries and continued food imports. Since one of the keys to providing food will be the availability of fertilisers, OECD's Development Assistance Committee asked the Research Division of the Development Centre to study the present and future role of fertilisers in agricultural development.

The Research Division's report has not yet been published, and, as a special ad hoc group of the Development Aid Committee is pursuing the subject further, I am, for interim information, summarising a review of it which appears in the June issue of the 'OECD Observer' (published every two months from 2 rue Andre Pascal, Paris 16).

By 1980 the developing countries will need about \$5,000 million a year in foreign exchange for fertilisers alone to prevent the food gap from widening. This estimate assumes that 35 million tons of fertiliser nutrients will be required to achieve agricultural production targets and that the present mix between the different types of fertilisers—nitrogen, phosphate and potash—will shift in favour of phosphate and potash which are less expensive. About half the total financial resources, amounting to \$5,000 million, currently flowing from OECD member countries and multilateral agencies to the developing world, could amount to between 8 and 10 per cent of the developing countries' export earnings, even if these earnings continued to grow, as in recent years, at 5 per cent per annum. How to provide fertilisers for development is therefore one of the biggest problems of the next decade.

Fertilisers are needed now more than ever before because, during the last twenty years, growth of agricultural output in the developing countries has been obtained largely by bringing more land under cultivation. But the possibilities of finding ever more uncultivated land must diminish, so that growth in output will depend on raising yields of existing farmlands. Experience of the developed countries shows that although fertiliser is by no means the only factor in raising yields, it is outstanding. At present the use of fertiliser is at a relatively low level even in the developed world.

Obtaining the necessary foreign exchange is only one of the problems raised by encouraging the use of fertiliser in the developing countries. Another is how to popularise its use. Fertiliser has advantages over other types of agricultural inputs, because, for example, unlike pesticides or irrigation, it can be applied by one farmer even when his neighbours resist; the results are quickly visible, and thus easily appreciated. Farmers must, however, be taught how to use fertiliser and must have access to other factors of production if the fertiliser is to be as effective as possible. This in turn requires better cultivating practices, water availability, marketing arrangements, seeds, etc. In Pakistan, for example, the local

varieties of wheat were unable to absorb much chemical fertiliser without "lodging", that is falling over. Hence the recent introduction of Mexican varieties which do not have this disadvantage and yet are suitable for the prevailing soil and water conditions.

Research workers in the developing countries are, however, in short supply. In India, the ratio of research workers to farm workers was 1.2 to 100,000 in 1960, compared with 60 in Japan and more than 130 in the Netherlands. For some of the developing countries, there is little research available from any source on the best cultivation practices.

Distribution problems also present headaches: turnover of a fertiliser sales outlet is ordinarily far smaller in the developing countries than elsewhere both because of the lower rate of application and the smaller size of agricultural holdings. Present marketing margins—or at least those that can be estimated—range from 19 per cent for urea in India (where prices are controlled) to 164 per cent for sulphate of ammonia in Colombia. The problem is to find a marketing margin that will encourage effort on the part of the distributor without imposing discouraging high costs on farmers. I agree with the OECD that it seems significant that the Indian government is now raising the margins and even freeing some from government control. Credit facilities with which to buy the fertiliser also need to be developed.

Government Action

Governments can in many ways encourage the use of fertilisers. Direct subsidies for the purchase of fertilisers (or indirect subsidies by credit assistance or transport rebates) are common in the developing countries, and often the prices of the finished agricultural product are supported as well. It is difficult to generalise about the cost-return ratio for the farmer that may be necessary to promote fertiliser use or to correlate success with particular measures. For example, in Taiwan and Japan where yields have shown impressive increases from the use of purchased inputs such as fertilisers, producer prices of agricultural commodities are subsidised. But in Ceylon, where the paddy grower receives fertilisers at a subsidised rate (half or one-third of the normal price, depending on whether he pays in cash or credit), and where the guaranteed price for paddy is almost twice the consumer price, yield increases have not been as rapid as one might expect. The size of the incentive needed seems to depend on a number of factors, such as climatic conditions, the risk of crop failure and tenancy arrangements.

II

LOCAL FERTILISER PRODUCTION OR IMPORTS?

Available information suggests that it will be economically more advantageous—at least in the long run—for the developing countries to import either fertiliser plants or the fertiliser itself than to import the food that they need to close the food gap. But as between importing plants or fertiliser itself, general conclusions are less clear because the relative advantages depend on many different factors, and what the pattern will be is difficult to predict. As an example of the kind of factors that play a role, the least expensive source of nitrogenous fertiliser is natural gas which is transformed into ammonia and then into finished product. Natural gas is plentiful in many developing countries, but ammonia plants are highly capital-

intensive and therefore must be large if economies of scale are to be achieved. Markets in many developing countries are too small to justify setting up of ammonia plants, whereas it may be practical to process imported ammonia into fertilisers because this is less capital-intensive.

It should be noted that partly because of the localised occurrence of certain essential raw materials, only a few countries can hope to become important fertiliser producers. This applies mostly to potash and phosphates and is reflected in the present pattern of production in the developing world. For example, Spain is the only potash producer in less-developed Europe; Peru and Chile are the two countries that supply potash to Latin America; Israel is the only source of potash in Asia; Africa produces no potash as yet. Phosphate fertiliser production is also highly concentrated. European production is centred in Spain and Yugoslavia; more than half of African production comes from Tunisia and more than two-thirds of the Latin American output comes from Brazil and Peru. At present such export surpluses as these main producers in the developing world have are shipped almost exclusively to the developed countries. It is, however, likely that this will change in the future.

FOREIGN EXCHANGE REQUIREMENTS FOR WHEAT IMPORTS, FERTILISER IMPORTS AND LOCAL PRODUCTION OF FERTILISERS UNDER INDIAN CONDITIONS

Alternatives	After years :										(\$ million)	
											After 18 years	
	1	2	3	4	5	6	7	13 (1)	18 (2)		Difference over line 1	Difference over line 2
Wheat imports	69.60	-139.20	208.80	278.40	348.00	417.60	487.29	904.80	1,252.80			+760.84
Fertiliser imports	76.52	136.76	180.71	201.46	222.21	242.96	263.71	388.21	491.96	-760.84		
Local fertiliser production	81.82	148.26	198.41	216.14	230.86	242.56	253.09	316.27	368.92	-883.88	-123.04	

- (1) Thirteen years was chosen because construction time was assumed to be 3 years and the following ten should produce the depreciation of the plant with prevailing depreciation procedures.
 (2) Eighteen years was chosen on the assumption that the economic life of the plant is at least 14 years after coming on stream.



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action is that aid donors will have to see whether in their per-
cent aid programmes there is not need for readjusting priori-
ties and giving more attention to agricultural development
than in the past. Given the considerable amounts involved
for fertiliser alone, this may well raise questions as to the
adequacy of the total volume of aid."

The OECD Development Centre study shows how the rela-
tive advantages of importing (a) wheat, (b) fertiliser and (c)
the capital equipment necessary for domestic fertiliser produc-
tion might be weighed. India was chosen as an example, be-
cause it is now a substantial wheat importer with an acute food
problem, but has substantial fertiliser potential and accessible
data.

First Indian experience suggested that 100,000 tons of nut-
rients (50,000 tons of P2O5 in the form of triple superphosphate,
50,000 tons of N., half in the form of urea and half ammonium
nitrate) could produce 870,000 tons of wheat if applied half on
irrigated and another half on unirrigated land, assuming that
it would take three years to achieve this level of application; that
a fertiliser plant would take three years to build and three more

to come up to a production level of 80 per cent of rated capacity;
that ownership would be 50 per cent Indian, 50 per cent foreign;
that profit after taxes would be 10 per cent of invested capital
once capacity was attained and that transfer of profits would be-
gin in the seventh year. The results (see table on page 737)
show that the import of fertilisers saves considerable foreign
exchange over the import of wheat after a relatively short
period. The savings in foreign exchange produced in the second
year of operation exceed the initial increase in requirements.
Over the years the average annual saving leaves ample room to
finance extension and fertiliser distribution services.

As against this, to procure the fertiliser locally gives con-
siderably less return. Although some savings are obtained as
soon as the plant starts producing in the fourth year, local
production cumulatively breaks even with fertiliser imports
only in the sixth year. Total returns are also smaller for a
larger initial increase in foreign exchange requirements. It
seems, therefore, that where the food problem is urgent and
capital scarce, priority should go to importing fertiliser rather
than producing it locally.

SHARE OF DEVELOPING COUNTRIES IN WORLD PRODUCTION AND CONSUMPTION OF CHEMICAL FERTILISERS

(in thousand metric tons of nutrients)

Year	PRODUCTION							
	World total				Less developed countries as			
	N	P	K	NPK	% of world production			
1955-56	7,330	8,110	7,180	22,620	5.7	6.8	4.0	5.5
1956-57	7,970	8,355	7,705	24,030	5.9	7.0	4.1	5.7
1957-58	8,735	8,625	7,740	25,100	5.9	7.2	4.5	6.1
1958-59	9,525	9,130	8,255	26,910	4.7	8.1	4.0	6.0
1959-60	9,955	9,750	8,710	28,415	5.6	8.2	3.8	6.0
1960-61	10,930	10,115	8,800	29,845	6.5	8.1	4.2	6.4
1961-62	11,950	10,415	9,385	31,750	8.0	8.4	3.9	6.9
1962-63	13,215	11,120	9,870	34,205	9.4	9.0	3.7	7.6
1963-64	14,845	12,440	10,600	37,885	10.2	8.8	3.6	7.9
1964-65	17,320	13,990	12,380	43,600	10.7	8.8	4.8	8.5
1965-66	19,500	15,100	13,500	48,100	10.5	9.5	5.3	8.8

Year	CONSUMPTION							
	World total				Less developed countries as			
	N	P	K	NPK	% of total consumption			
1955-56	6,795	7,980	6,780	21,555	17.6	9.1	5.2	10.6
1956-57	7,285	8,280	7,170	22,735	19.0	10.0	5.9	11.6
1957-58	7,870	8,530	7,420	23,820	19.1	11.0	6.3	12.2
1958-59	8,775	9,050	7,915	25,740	18.5	11.2	6.3	12.2
1959-60	9,150	9,630	8,225	27,005	19.5	10.6	6.9	12.5
1960-61	10,270	9,970	8,500	28,740	20.6	11.2	7.6	13.5
1961-62	11,030	10,440	8,670	30,140	21.4	12.1	7.3	14.1
1962-63	12,470	11,130	9,280	32,880	20.9	13.0	7.7	14.5
1963-64	14,000	12,260	10,060	36,320	20.2	13.1	8.7	14.6
1964-65	15,480	13,310	11,140	39,930	20.5	13.1	8.6	14.7
1965-66	17,650	14,550	12,100	44,300	19.5	13.3	10.0	14.8

N.B.: Discrepancies in totals due to rounding.

Both tables are reproduced with acknowledgments to the 'OECD Observer'.

Note: P=Potash; K=Phosphate; and N=Nitrogen.

South-East Asia Needs More Attention

HOMI J. H. TALEYARKHAN

I HAVE recently returned from a tour of Singapore, Malaysia
and Thailand. The leaders in political as well as in business
circles whom I met in all these countries felt that we should pay
far more attention to south-east Asian countries which hold
our country in high regard and admiration. They have a feel-
ing of being neglected by us. They gave examples of the way
countries such as Japan, those of western Europe, and even
China (though they did not like her advances), had been culti-
vating them commercially, constantly sending their people to
follow up their tenders and to check up on the progress of their
supplies to ensure quality, quantity, proper packaging and deli-
very schedules. In addition, these countries offered competitive
prices and attractive terms of payment.

No doubt all these countries are keen on promoting trade
relationship with India, but they complain—particularly in
Malaysia, where they prefer Indian investment to any other—
that Indian businessmen and leaders only come, hold discus-
sions with various authorities, raise hopes and after they go
back there is usually no follow up. This leads to disillusion-
ment and lack of faith.

Malaysia and Singapore are both prepared to offer pioneer
status (five years tax holiday), protection through tariffs and
other incentives to various industries from this country. Also,
they are prepared to provide ready-made factory buildings on
reasonable rentals in their well-developed industrial estates
some of which I saw in both countries. The Jurong Industrial
Estate in Singapore, the Batitika and the P. J. Estates in
Kuala Lumpur, and the one in Penang, amongst a number of
others, have made outstanding progress.

Joint Ventures

Both government agencies and private parties in these
countries are prepared to come forward and co-operate with
us in joint venture schemes. I believe that even though their
markets are highly competitive we would stand a good chance
in view of the great goodwill that our country enjoys there.
One of the leading ministers in Thailand suggested that we
should invite an economic mission to exploit the possibility of
further trade exchanges. He was willing to come himself, if
invited. We need therefore to exploit our opportunities more
assiduously. Ministers, chambers of commerce, boards of trade
and other leaders with whom I held talks in all these countries,
gave me the impression that our country's interests were suffer-
ing on account of lack of initiative and proper cultivation of
contacts on our part.

Of late, in cotton textiles, Pakistan has been making vast
strides while our textiles due to the price factor are heavily
losing ground. The Indian Chamber of Commerce in Singapore
told me that recently when there was an inquiry from Indonesia
regarding cotton yarn, our prices were 40 per cent higher than
those of Pakistan. They said that there are 150,000 Indian
residents in Singapore of whom 100,000 are Singapore nation-
als but not even one per cent of the trade conducted by them
is with this country. The principal reason they gave for this
was the disparity in prices and the difficulty in the free move-
ment from this country. They said that Pakistan Nylon saris
and synthetic fibres come to Singapore to be sold back to India.
Cotton yarn, jute goods, textiles and rayons all come from
Pakistan to Singapore because of lower prices, the difference
being to the extent of four pence per yard. They added that
the bonus voucher scheme was helping Pakistan to keep the
prices down. Recently 10,000 bales of cotton yarn were pur-
chased from Pakistan.

The largest imports into Singapore, however, are from

China, to the extent of 220 million Malaysian dollars as
against exports of only 60 million dollars. Our exports to
Singapore in 1966 amounted to only 55.56 million Malaysian
dollars as against 102 million dollars in 1964—a drop by half
in two years, while our imports have increased from 24 million
dollars to 27 million in the same period. Our biggest exports
are petroleum products, followed by fresh vegetables, textile
fabrics, spices, etc.

In Malaysia, where also our trade balance is unfavourable,
our biggest exports are those of sugar, cotton piecegoods, art
silk fabrics, tobacco and spices, while imports are mostly tin,
rubber and copra. From my study I found that scope for ex-
port of non-traditional items is considerable. Our trade balance
is particularly adverse with Thailand due to heavy import of
rice and jute. We are still trying to get as much rice as possi-
ble but since no order for jute has been placed since January
this year, there appears to be some hesitation on their part
to give us more rice.

Bright Future

The export of our films to these three countries should
have a bright future, specially Hindi and Tamil films, Tamil
being one of the recognised languages of Malaysia. In Singa-
pore and Malaysia, two large organisations, the Cathay and
Shaw organisations control the distribution of the films. The
Shaw organisation, the larger one, complained that there were
films for which they have paid way back in 1959 and which
were then under preparation. Now that they are ready for ex-
port to Singapore and Malaysia, they are asked to pay 57½ per
cent more on the price they have already paid, in view of the
devaluation of the rupee. They have resented this and taken
it up with the Government of India through our High Com-
missioner in Singapore. The Cathay organisation had no diffi-
culty in the import of films but they were not getting them
through the IMPEC because IMPEC did not have the sole right
of transmission of our films to their countries.

The STC representative in Thailand, who incidentally has
been running the whole show without any staff so far, said
that we were losing a lot of foreign exchange as a result of the
fact that only purchase prices of our films were declared to be
paid to the producers officially and the profits amounting to
70 per cent to which they were entitled were not shown any-
where, though he had little doubt that the producers were get-
ting their share from distributors in Thailand. He suggested
that the IMPEC should keep an eye on these transactions and
the STC organisation there, when it is full-fledged, should watch
the receipts from the cinema houses in Bangkok so that valuable
foreign exchange is not lost by undeclared profits, which may
be passed on to our producers by exhibitors in Thailand.

With a population of only two million, Singapore, a city
state, is showing amazing progress with its housing organisa-
tion, its port development and its industrial estates. It also
receives 170,000 tourists every year and has 1,500 hotel rooms.

GROW MORE

SAVE MORE

WORK MORE

They are building 2,500 more rooms to accommodate the traffic of 320,000 they expect by 1970. As for housing, they have constructed 70,000 low-income tenements in superbly symmetrical and colourful multi-storeyed buildings in different parts of the city in the last five years as against only 20,000 in the preceding 35 years. They are building at the rate of 13,000 flats every year with one, two and three rooms, with rentals varying from 20 to 60 Singapore dollars. There are lifts provided in all the multistoreyed buildings which vary from five to sixteen floors. I consider it worthwhile for any housing authority to make a study of the Singapore housing scheme. I may mention that the housing and land reclamation board also reclaims land rapidly by working round the clock.

Singapore is the fifth largest port in the world handling 25,000 ships annually and is used by 150 shipping lines. It handles cargo of 27 million tons and has plans to spend 150 million dollars for further development of the port. No ships are ever kept waiting upstream for a berth.

The Jurong Industrial Estate is, like their housing, a model. In an area of 17,000 acres a new industrial town has sprung where till 1961 it was all hills. The hills have been levelled down and with this earth swamps have been filled up. Today there are nearly 100 factories set up or in the process of being constructed. All varieties of industries have been started, from shipyard to a wide range of light industries. Already 6,500 persons are in employment and there will be over 10,000 people working at Jurong. Nearly 5,000 units of housing have been built for the workers. Jurong Industrial Estate offers to investors in industry from within and without, land as well as ready-made factory buildings in sizes varying from 13,000 to 35,000 sq. ft at reasonable rates over long leases. Facilities of port, railhead, water and power are available.

Singapore's two million population contains 75 per cent of Chinese origin and much of the trade is in Chinese hands. There are huge Chinese departmental stores where things sell very cheap. The government is striving hard to contain Peking's influence. In Singapore in a parliament of 52 members there is no one in the opposition as all the seven members supporting the Peking line have resigned and the ruling People's Action Party holds full sway. The Prime Minister is an outstanding young statesman and has been responsible for the building of modern Singapore. The Indian population is about 150,000, mostly Singapore nationals. Most of them are in trade but about 15,000 are in British service or are civil servants. There are also four Indian banks in Singapore out of 33 banks put together.

Malaysia : A Success Story

Malaysia has a population of nine million of whom over 800,000 are of Indian origin. There are two Indian ministers in the cabinet. Malaysia is now in political and economic competition with Singapore from which it separated by mutual agreement in August 1965, though there is considerable trade between them. Malaysia, whose successful economy depends upon its rubber and tin, is one of the countries in south-east Asia with the highest per capita income. Its rubber production runs up to 870 million tons, providing employment to over 600,000 and livelihood for over 1½ million. Malaysia is also the largest producer of tin in the world having over one-third of the world production.

Malaysia is perhaps the only country in the world where kings are changed every five years as if they were presidents. It is done by rotation in order to satisfy the sultans of the 11 states in the country who take their turn to become kings for five years.

Malaysia's outstanding organisation is the MARA which was founded for the development and uplift of the Malays to enable them to stand the competition from the Chinese who

number 40 per cent of the total population. This organisation founded by Tanku Abdul Rasak, the Deputy Prime Minister, has done pioneering work and provides opportunities for employment, training and opening of small-scale industries to the Malays of the country. Another successful scheme undertaken by the imaginative Deputy Prime Minister is the rural development project which is presented at a glance in a "theatre of operations" which enables the minister to inspect at a glance the progress made by the various schemes in the country-side. It is quite a remarkable project.

On the industries side, besides the MARA organisation, the FIDA (Federal Industrial Development Authority) and the MIDFL (Malaysia Industrial Development Finance Ltd), promote industrial development, among other things, by assisting in giving pioneer status and loans to industries proposed to be set up in one of the 13 industrial estates or elsewhere in Malaysia. All these organisations have substantial programmes of activity. I saw some of their industrial estates near Kuala Lumpur, such as the Batitika and the P. J. Estate. Both are under rapid development and a number of industries have started functioning in these estates.

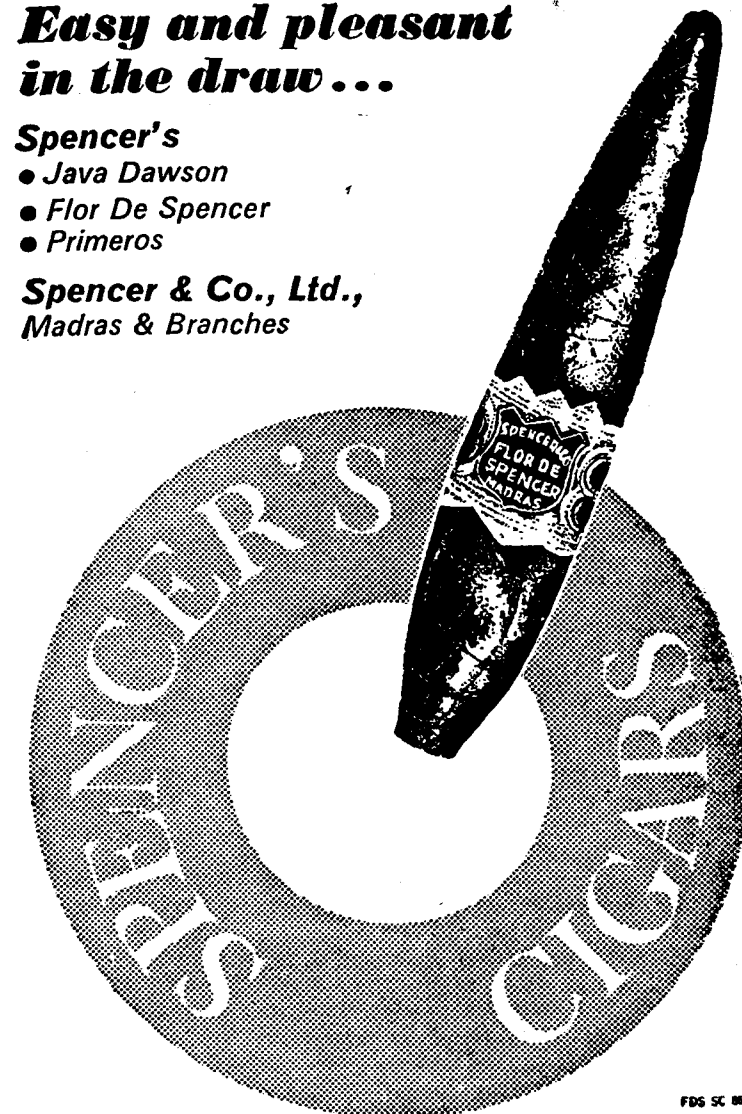
Both Singapore and Malaysia are serious about their family planning programmes, but their effort is more on the educational side since, even though their birth rate may be higher than ours, their population being small, the problem is that of spacing and not of stopping as is necessarily the case with us.

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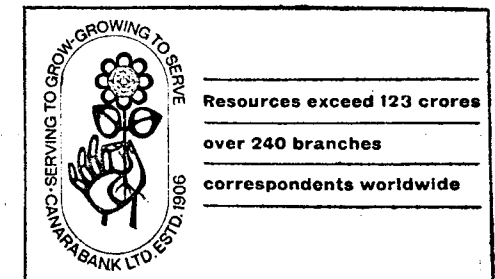
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A THOUSAND MILE HANDSHAKE...

Trade Winds

H.E.C. DIVERSIFICATION

ON RETURN from his tour of Europe and the United Arab Republic, the Minister for Industrial Development, Mr Fakhrudin Ali Ahmed, disclosed last week that the Soviet Union and Czechoslovakia had agreed to investigate the possibilities of importing larger quantities of our engineering goods. There were some doubts about our quality and prices. These questions would be jointly investigated by experts from these countries and our officials. If our goods were found satisfactory, the USSR would not only itself import more but might also assist us in exporting to third countries. Mr Ahmed further revealed that the USSR had agreed to send a team of experts to assist in the diversification of the product patterns of the Ranchi Heavy Engineering Plant and the Durgapur Mining and Allied Machinery unit. Both these projects have considerable excess capacity compared to our present needs, thanks to the recession in the industrial activity.

ASSISTANCE TO THE U.A.R.

Talking about the discussions he had in the UAR and Yugoslavia, the Minister observed that an understanding had been reached on the joint manufacture in the immediate future of at least three items out of the 14 selected by the working groups, representing the three countries, at their deliberations recently in Delhi. The three items, however, were not identified by the Minister. He only said that there was good scope for collaboration with Yugoslavia in tractor manufacture. With a view to assisting the UAR in its industrial development, Mr Ahmed stated that it had been decided that one of our leading industrialists with considerable experience in the field of oil engines and electrical equipment would be sent to that country to assess its production potential and tender advice on how best it could be utilised with some additional balancing equipment, if necessary, and also in what manner the Indian industry could be of assistance to the UAR. We would also be making available to the UAR 50,000 spindles for the expansion of one of its major spinning and weaving mills to 250,000 spindles capacity. The necessary equipment, Mr Ahmed said, had already been located by the UAR in our country. Its prices and quality had been found to be satisfactory. The deal would be finalised in the course of the next two or three months. The UAR might as well import from us some jeeps and specialised machine tools.

Bulgaria also, the Minister stated, would be sending a team soon to find out what items of manufacture it could import from us. The Bulgarian authorities were planning to hold an exhibition in our country with a view to fostering Indo-Bulgarian trade.

SMALL CAR, PATENTS BILL

The small car manufacturers in Yugoslavia and France, Mr Ahmed said, had submitted to him certain proposals for the manufacture of a low-priced car in our country. These would be considered along with several other proposals already received by the government. There were now in all 14 proposals—eight from foreign firms and six from Indian concerns—for the manufacture of a small car.

About his discussions in Britain, Mr Ahmed observed that a number of British investors had complained to him about the patents bill. They had told him that the patents bill in its present form had three objectionable clauses: (i) the government's proposal to have the right to manufacture pharmaceuticals without payment of compensation for certain purposes such as research and tackling of epidemics; (ii) the reduction of the

period for the operation of patents from 16 to 10 years; and (iii) the fixation of the royalty rate at four per cent.

SEARCHES HELD ILLEGAL

The writ petition filed by two mills belonging to the Birla group of industries, viz New Swadeshi Mills and Manjushri Textiles, situated at Ahmedabad, has been allowed with cost by the Constitution Bench of the High Court of Gujarat, consisting of Mr Justice Bakshi and Mr Justice Thakore.

The Superintendent of Police (CBI), Delhi, had conducted searches in these mills on June 15, 1967,—the day when searches were conducted throughout the country in all the eight textile mills said to be belonging to the Birla group. The searches, conducted under section 165 of the Cr. P.C., had resulted in the seizure of truck-loads of books, documents and records. The seizure had completely paralysed the business and affairs of the mills.

Challenging the searches, the mills filed the writ petition before the Gujarat High Court under Article 226 of the Constitution. The petitioners submitted that the searches were mala fide, arbitrary, without any application of mind and without complying with the provisions of law. They argued that the first information report in the case was registered at Delhi on June 13, 1967, at 3-45 p.m. and the investigating officer left that place after about five/six hours. How could it be possible for the investigating officer to make enquiries, to make lists, to appoint a subordinate officer and to take a decision within such a short time, unless and until the searches were pre-planned and with ulterior motive. They further stated that it was an invasion of the fundamental rights of a person safeguarded by the Constitution.

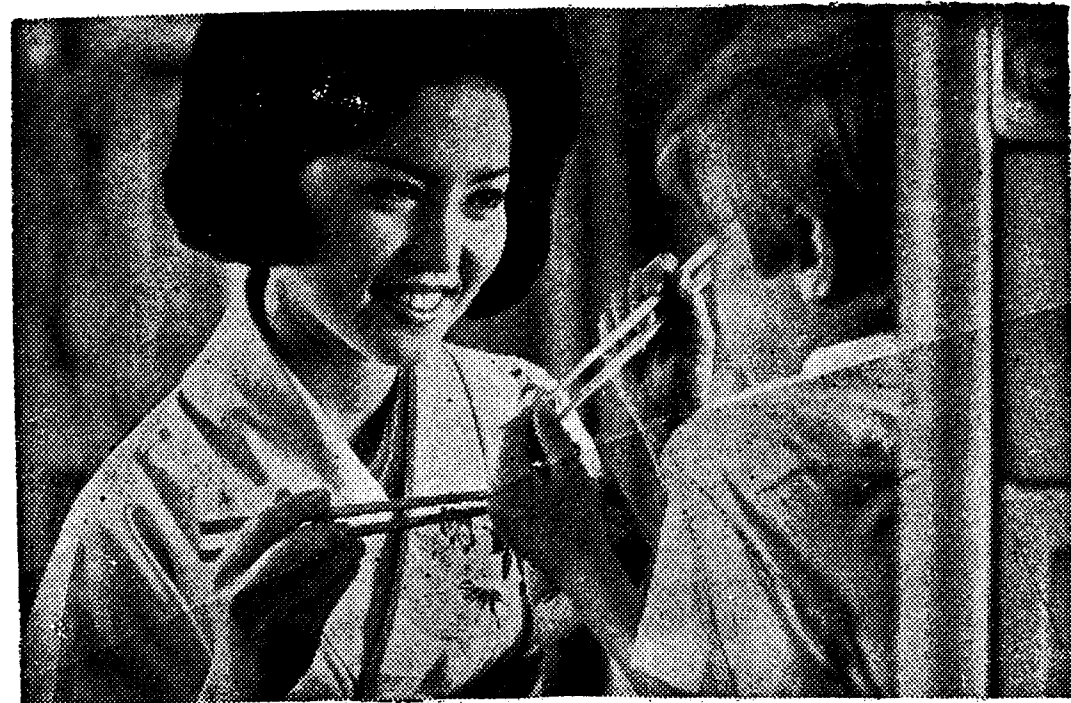
In the judgment delivered by the High Court, it has been declared that the conditions imposed by section 165 of the Cr. P.C. are mandatory and non-compliance therewith vitiated the search and seizure made by the police. The High Court has held that while section 165 of the Cr. P.C. requires the police to have reasonable grounds to believe that the documents would not be produced otherwise than by a search, the impugned order of the investigating officer only stated that he had reasonable grounds to suspect this. The High Court has further held that the grounds of belief as to why the documents would not be produced require to be recorded in a public document which is to be sent to the magistrate. Here no such grounds were recorded.

Accepting the prayer of the petitioners, the High Court declared the searches and seizure as illegal and directed the CBI to return all books, documents and articles seized from the mills. The application of the CBI for a certificate to appeal was also granted by the High Court.

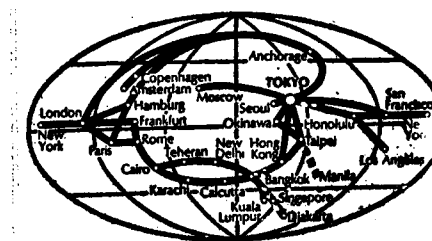
WEALTH TAX RULES

The Central Board of Direct Taxes has framed rules under the Wealth Tax Act for the evaluation of preference shares of all companies and equity shares of companies other than investment companies and managing agency companies, which are not regularly quoted at a recognised stock exchange. These rules have been framed with a view to ensuring uniformity in evaluation and avoiding unnecessary litigation. Under these rules, the paid-up value of a preference share will be taken as its market value if the rate of dividend payable under the terms of issue or as increased by the Preference Shares (Regulation of Dividends) Act, 1960, is eight per cent or more. Where the dividend payable, or as increased under the above-mentioned Act, is less than eight per cent, a proportionate reduction will be allowed from the paid-up value. Where no dividend has been paid by

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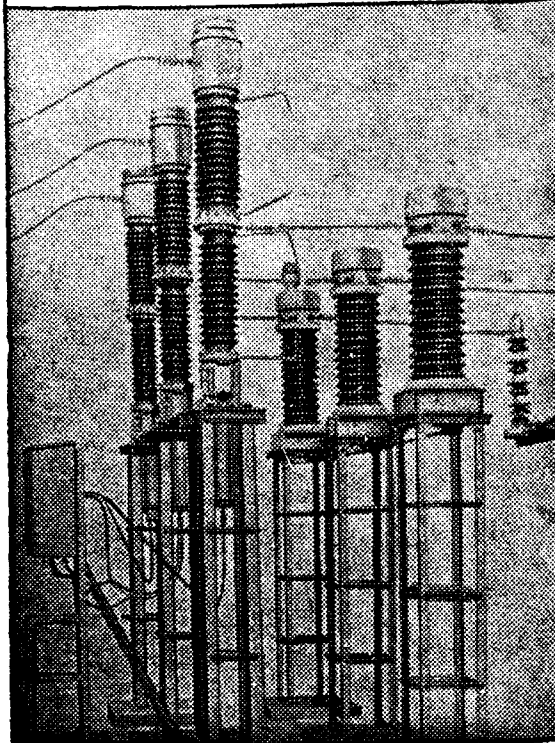


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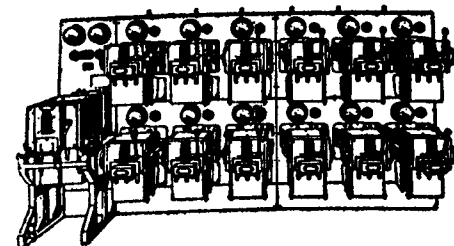
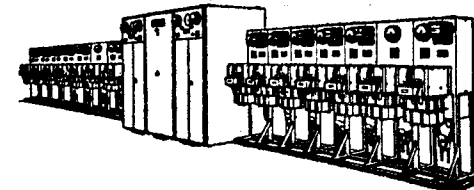
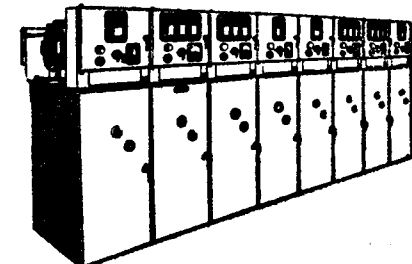
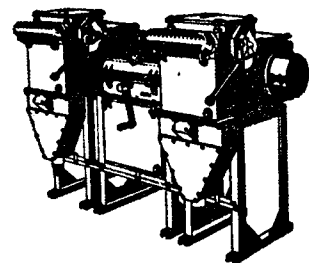
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the company for three or more successive years ending on or before the valuation date, a reduction up to 40 per cent of the paid-up value or the adjusted paid-up value is to be allowed in the case of non-cumulative preference shares. However, in the case of cumulative preference shares, a reduction up to 20 per cent is allowable.

In the case of unquoted equity shares of companies other than investment companies and managing agency companies, the market value under section 7(1) of the Wealth Tax Act will be determined by taking the break-up value on the basis of the balance-sheet of the company drawn up on or before the valuation date and by reducing it by 15 per cent. Where no balance-sheet has been drawn up on or before the valuation date, the balance-sheet drawn up immediately after the valuation date is to be taken. The break-up value has to be worked out on the basis of the book value of the assets and liabilities. Where the company has not declared dividend continuously for three or more years, the break-up value would be reduced by another 10 per cent according to a sliding scale.

TARIFF COMMISSION REVIEW COMMITTEE

The Tariff Commission Review Committee, which was appointed by the Government of India in 1966 to review the working of the Tariff Commission, has since submitted its report making several recommendations. It has suggested the setting up of a governmental agency other than the commission to investigate the cost and price structure of various industries. Such investigation, according to the report, should cover not only industries enjoying protection but also new establishments. The study should also be done on a regular and continuous basis, the committee has said. It has pointed out how the benefits of devaluation, in terms of price competition with imports, accrue also to other industries not protected by the commission, and has suggested early action on the primary scrutinising of these industries. On the basis of such scrutiny, the government may refer selected industries to the commission for examining their case for protection. According to the committee, the government should work out a scheme of priorities for such cost-price study. The industries to be examined should be those to whose future expansion has been accorded a priority in the plans and those which are likely to be subjected to relatively greater pressures of competition following liberalisation of imports. The examination should cover industries which could be considered as infant industries, that is, capable of developing a natural momentum for growth after an initial period of nurturing.

IMPORT LICENCES TO ACTUAL USERS

No separate applications are required to be submitted by actual users for raw materials, components and spares for import against West German and Japanese credits, as some of them are doing at present by referring to Public Notices No. 59-ITC(PN)/67 of July 7, 1967, and No. 84-ITC(PN)/67 of August 21, 1967, issued by the union Ministry of Finance announcing the terms and conditions that would be applicable to the licences issued against West German credit and yen credit. Applications made by actual users in the normal course under the import policy for the period April 1967-March 1968 will be considered by the import licensing authorities and, wherever necessary, import licences against such applications would be issued against West German credit or yen credit to supplement the free foreign exchange resources.

KHARIF PROCUREMENT PRICES

Kharif procurement prices fixed by the Government of India and communicated to state governments on October 10, generally range between Rs 45 and Rs 56.25 per quintal of paddy and Rs 43 to Rs 55 per quintal of coarse grains. In fixing these prices, an attempt has been made to even out disparity in prices in various states to the extent possible while keeping in view

the level of prices suggested by the state governments. The Government of India has sought to strike a balance between interests of the producers and those of the consumers. While generally agreeing with the reasoning that very high procurement prices would be unrealistic in a year of expected record production, it is felt that it may not be practicable to bring about any reduction in procurement prices but that some increase may even be necessary to accord some weightage for the higher cost of agricultural production and keeping the prices on an incentive level.

CENTRAL REVENUE

The revenue realised from items on which duties are levied by the central government in the first four months of the current financial year amounted to Rs 611.23 crores. The amount for the corresponding period of 1966-67 was Rs 580.77 crores. The revenue collected in July 1967 was Rs 147.93 crores as against Rs 157.67 crores in July last year. Following are the details of the revenue realised under various heads:

(Rs lakhs)

	During July		Upto July	
	1967	1966	1967-68	1966-67
Corporation Tax	335	755	4,151	4,084
Income tax	993	1,532	3,793	4,003
Customs	3,547	5,349	17,548	17,983
Union excise (excluding cess on salt, rubber, coal and iron ore)	9,775	8,020	35,299	31,699
Estate duty	36	29	101	88
Wealth tax	32	40	76	94
Expenditure tax	—	—	(—)1	1
Gift tax	4	9	19	23
Opium	71	33	137	102
Total	14,793	15,767	61,123	58,077

CALCUTTA STOCK EXCHANGE

The Government of India has decided to renew the recognition of the Calcutta Stock Exchange Association Limited under Section 4 of the Securities Contracts (Regulation) Act, 1956 for a further period of five years commencing on October 10, 1967. The terms of the renewal provide for the appointment with the prior approval of the government of a whole-time chairman/president/executive director, who shall be an ex-officio member of the committee and sub-committees, nomination on the committee of a person of public eminence in the locality and unconnected with the securities business and retirement of one-third of the elected members of the committee by rotation each year. Further, any member who does not maintain security deposit with the Exchange and ceases to carry on business on the Exchange will not be eligible for election to the council of management. The Exchange has been permitted to implement these conditions within a period of one year.

JUTE FORWARD TRADING

The East India Jute and Hessian Exchange Limited of Calcutta 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 period of one week beginning October 13, 1967.

IMPORTS OF SILKWORM SEED

A plan which would enable the country to stop imports of silkworm seed from 1968 onward is reported to have been recommended by the special committee set up by the Central Silk Board under the chairmanship of Mr Mahabir Dass, MP. It envisages useful utilisation of facilities available with the Industries Department of Uttar Pradesh at Dehra Dun for preparation of commercial seed. The committee is also reported to have suggested several remedial measures for meeting the current year's deficiency in silkworm seed in Jammu & Kashmir.

Company Affairs

INDIA STEAMSHIP

MR A. RAMASWAMI Mudaliar, chairman, India Steamship Company Ltd, stated at the annual general meeting held recently that freight earnings during the year ended March 31, 1967 were Rs 9.90 crores, as against Rs 7.91 crores in the previous year. The total number of voyages was 46.5 of which 34.5 voyages were completed in the liner service, as against 12 in the coastal service. After providing Rs 94.31 lakhs for depreciation and Rs 5.29 lakhs for managing agency commission, a sum of Rs 54 lakhs was provided for development rebate. The directors recommended payment of Rs 1.63 lakhs to preference shareholders and a seven per cent dividend to ordinary shareholders. The chairman stated that following devaluation foreign exchange earning by the Indian shipping companies was eroded in more ways than one. Firstly, there was an increase on foreign-going vessels of 57½ per cent over the existing rates of harbour dues by the port authorities. This decision affected Indian ships more than British ships. In the second place, Indian companies had to pay a fair amount of salary to officers and crew in foreign exchange, again depriving these companies of part of the benefit of devaluation. Similarly, a considerable amount of foreign exchange had to be paid to meet dues abroad such as stevedoring, port and harbour dues and repairs. The position, he added, was, to some extent, redeemed by an increase in the freight rates both eastbound and westbound by 7½ per cent decided upon by the liner conference of India-UK Continent. Mr Mudaliar added that during the current year, a Shippers' Council had been established, a body consisting of the representatives of shippers of all commodities, under the chairmanship of the President of the FICCI. This was a progressive step advocated by the shipping companies as it replaced individual groups of shippers of particular commodities which existed hitherto. It was hoped that the Shippers' Council would take a broad view of the situation and concentrate over the total position keeping in view the general state of the economy.

ORIENTAL FIRE

Mr M. R. Bhide, chairman, the Oriental Fire and General Insurance Company Ltd., pointed out at the annual general meeting held recently that during the year ended December 31, 1966, the company recorded a gross profit of Rs 111.68 lakhs, as against Rs 108.45 lakhs last year. He added that a sum of Rs 2.50 lakhs was provided for reserves for bad and doubtful debts, Rs 75 lakhs for taxation and reserves, Rs 15.50 lakhs for general reserve, Rs 13.20 lakhs for dividend reserve and Rs 5.20 lakhs for dividend equalisation reserve. The net premium of the company in the year 1966 was Rs 732.91 lakhs, as against Rs 638.18 lakhs in 1965. The overall position of net claims to net premium was 50.80 per cent for the year under review, as against 49.73 per cent a year before. The overall ratio of commission and expenses of management to the net premium was 39.28 per cent, as against 35.04 per cent during 1965. Mr Bhide revealed that the investments towards the end of 1966 aggregated to Rs 692 lakhs. The directors, he added, had recommended dividend at the enhanced rate of 12 per cent.

KIRLOSKAR OIL

Mr S. L. Kirloskar, chairman, Kirloskar Oil Engines Ltd, revealed at the annual general meeting held recently that the plants for assembling RA type engines at Faridabad and AVC series engines at Madras were functioning quite satisfactorily and it helped to increase production. The output of thin walled bearings and bushes was also on the increase, he added. More and more varieties of bearings and bushes, suited for different makes of automotive and industrial stationary type engines were now being produced. During the year end-

ed March 31, 1967, the exports of the company increased by 20 per cent in value, although the physical quantum of exports was lower. This decline was due to adjustments following devaluation and due to non-implementation of the Indo-UAR agreement and unfavourable crop conditions in West Asian countries. The year also witnessed the beginning of the manufacture of engines at Hamburg, in the subsidiary of this company in West Germany. The chairman hoped that this would improve the sales position of the engines of the company in Europe. The sales of this company at Bangkok were also quite satisfactory. The buyers, the chairman added, were now convinced that the engines of this company were backed by an efficient organisation for affording proper after-sale service and supply of spare parts. The company had recently opened a similar sales office and a warehouse at Rotterdam. This has facilitated speedy supply of engines to South American markets and to Canada and these sales were now being co-ordinated from Rotterdam. Mr Kirloskar stated that the expansion schemes were well in progress, though the recent recession in engineering industry had forced the company to hold the expansion programme in abeyance for a period of six months.

ZENITH STEEL

Mr Dhirajlal Maganlal delivered the chairman's speech at the annual general meeting of the Zenith Steel Pipes Ltd due to unavoidable absence of the chairman, Mr B. K. Birla. Mr Dhirajlal Maganlal pointed out that in the face of recession in the engineering industry, the management had been straining hard to maintain as high a production as possible by putting extra efforts in export, which also was proving difficult due to the scrapping of export incentive scheme after devaluation. The costs of production had increased as imported zinc was more expensive than what it used to be. Moreover, steel prices had also increased. He, therefore, stated that production level at Zenith Steel in the current year would entirely depend upon conditions in the coming months. He, however, hoped that depending upon sales and exports, the manufacture level of around 28,000 tonnes was expected to be reached. The tube industry in general was in a state of recession because the capacity that had been established was now proving much in excess of demand. This naturally resulted in idle capacity. Unless the home demand improved and exports were remunerative, the production in tube industry would not improve. He hoped that the economic trends in the coming months would change for the better.

CENTURY'S PROGRESS

The Century Spinning and Manufacturing Company Ltd has made remarkable progress during the last decade. It diversified its activities so that apart from producing high quality textile goods, it now produces rayon filament yarn, tyre cord yarn, caustic soda, sulphuric acid and other chemicals. It has plans for the manufacture of nylon yarn and seamless steel pipes. These facts were revealed in a handy brochure entitled 'A Decade of Progress' (1957-1966) brought out by the company. It has now moved into its own premises in the vicinity of its textile unit at Worli. The brochure also carries expressions of satisfaction from its shareholders at the performance of the company. One shareholder says: "My experience is that investment in this unit is far safer than in any other concern." Another says: "I have since held them with a growing sense of pride and security, and I shall, in turn hand them down to my children with the firm advice never to sell them."

The company's capital and reserves increased from Rs 398.30 lakhs in 1957 to Rs 1,235.63 lakhs in 1966. Annual sales improved from Rs 939.65 lakhs to Rs 3,560.14 lakhs and the net profit from Rs 19.98 lakhs to Rs 266.45 lakhs. The percentage of

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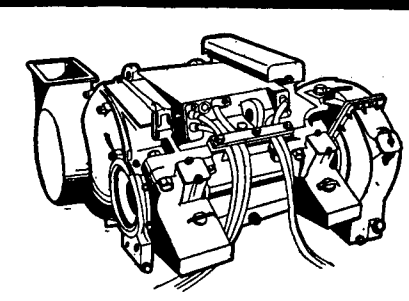
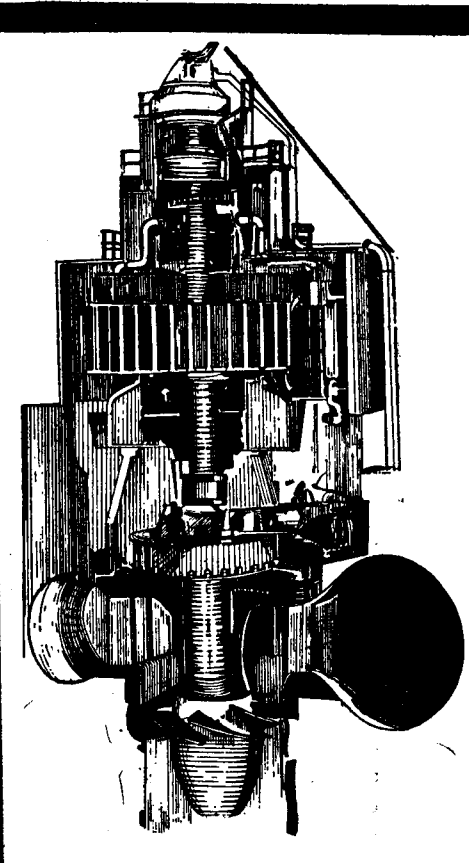
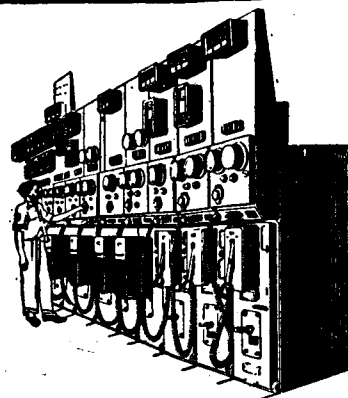
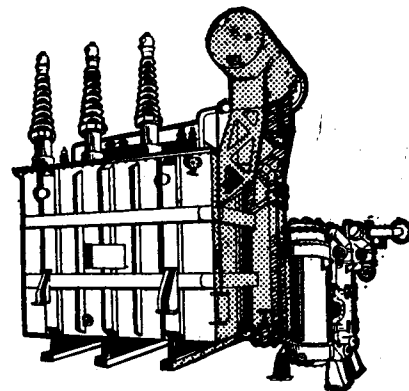
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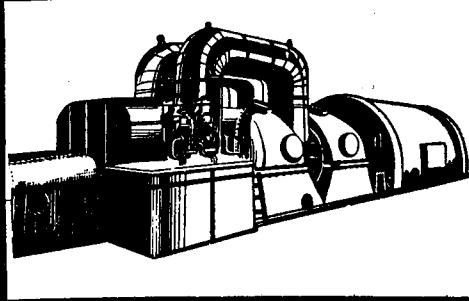
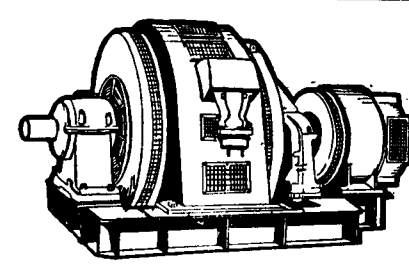
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(INDIA) LTD. BHOPAL**

(A Government of India Undertaking)

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net profits to gross block rose from 2.68 to 8.10 and the percentage of net profits to gross sales from 2.13 to 7.48. Statistics relating to foreign exchange savings and earnings disclose tremendous improvement from Rs 241.01 lakhs to Rs 788.53 lakhs. The price per share on equity capital of 1957 adjusted to right and bonus issues rose from Rs 455 in 1958 to Rs 1,351 in 1966. The number of equity shareholders increased from 2,661 in 1957 to 8,210 in 1966. As against this the number of shareholders holding more than thousand equity shares fell from 21 in 1959 to 15 in 1966. The number of those holding one to ten shares increased more than three times from 2,139 to 6,805. Significantly with the growth of the company the number of employees increased from 14,950 to 17,279.

NEIVELI CERAMICS

Neiveli Ceramics and Refractories Limited reported a working surplus of Rs 43,500 for the year ended March 31, 1967. No depreciation was provided. Despite adverse conditions, production increased to Rs 37.17 lakhs against Rs 12.10 lakhs in the previous year. The company exceeded the rated capacity of 150 tons a month since March this year. Sales totalled 1,028 tonnes of sanitaryware during the year. The demand for the company's products continued to be good. The company was expecting sanction for stamping the ISI mark on its wares.

HINDUSTAN ORGANIC CHEMICALS

The Hindustan Organic Chemicals Ltd, a Government of India undertaking, was registered in 1960 with an authorised capital of Rs 12 crores to manufacture organic chemicals and intermediates for the drugs, dyestuffs, plastics and pesticides industries. It was late in 1965 that its production programme could be finalised and a decision taken to invite global tenders for individual chemical plants and to implement the project under its own auspices. The company has signed agreements with various parties for the supply of plants for sulphuric acid/oleum (110 tons per day from West Germany), benzene hexachloride (3000 tons/annum from GDR), chlorobenzenes (4400 tons per annum from France), acetanilide (2000 tons per annum indigenous), aniline and meta amino phenol (6000 tons and 750 tons/annum respectively from Japan). Similar agreements for nitrobenzene and other nitro products, formaldehyde and hydrogen plants would be signed shortly. The first plant is expected to be in commercial production early in 1969 and other plants to follow soon thereafter. In its first phase, the project would involve an estimated capital investment of Rs 17 crores including foreign exchange component of about Rs 4 crores. When in full production the annual turnover of the project is estimated at Rs 10 crores and it would help save foreign exchange of about Rs 6 crores a year.

INDIAN ALUMINIUM

The board of directors of Indian Aluminium Company Limited has declared an interim dividend of 75 paise on each fully-paid ordinary share of the company for the year ending on 31 December, 1967. The dividend will be payable to holders of the company's ordinary shares on record as on October 26, 1967 and will be subject to deduction of tax under Section 194 of the Income-tax Act, 1961.

ROLOCON ENGINEERING

Rolocon Engineering Co. Ltd, a new company registered in March last, entered the capital market on October 18 with a public issue of Rs 8.93 lakhs comprising 4,930 equity shares of Rs 100 each and 4,000 (10 per cent) cumulative redeemable preference shares of Rs 100 each. The subscription list will close on October 28 or earlier but not before October 23. Out of the public issue of Rs 8.93 lakhs, preference shares of Rs 4 lakhs and equity shares of Rs 4 lakhs have been underwritten. Two directors have guaranteed that out of the balance of shares of

Rs 93,000 the unsubscribed shares will be taken up by them and their associates. The company has an authorised capital of Rs 30 lakhs and an issued capital of Rs 18 lakhs (Rs 14 lakhs in equity and Rs 4 lakhs in preference shares). The subscribed capital is Rs 5.13 lakhs. The present issue is for Rs 12.87 lakhs, out of which equity shares of Rs 3.94 lakhs have been allotted to foreign collaborators, Kohler and Bovenkamp (West Germany) for supply of machinery. The company will set up a factory at Vallabh Vidyanagar, Gujarat, for manufacturing various types of chains for mechanical handling equipments. Production is expected to commence towards the end of 1967. The construction of the factory building is complete and machinery is being installed. The directors hope that the company will make reasonable profits to pay a reasonable dividend for 1969. The capital outlay is estimated at Rs 33 lakhs, which will be met from share capital, medium loan from the Gujarat State Financial Corporation and bank borrowings.

INDIAN EXPLOSIVES

Indian Explosives Ltd, proposes to increase its equity share capital by Rs 16.68 crores by creating 16,680,000 'A' equity shares of Rs 10 each at par. Out of this, the Central Government will be allotted shares of Rs 1.90 crores, the ICI Ltd, UK shares of Rs 7.60 crores and the International Finance Corporation, USA, and/or any persons named by it shares of Rs 2.15 crores. Shares of Rs 216.72 lakhs are being offered in the first instance to the existing shareholders other than the Central Government and the ICI Ltd, UK in the ratio of 36 new shares for every ten shares held on September 30 at par and the balance shares of Rs 286.28 lakhs will be offered to the public for the rights shares.

FERRO ALLOYS

Ferro Alloys Corporation Ltd, proposes to enter the capital market shortly with a public issue of Rs 65 lakhs comprising 20,000 equity shares of Rs 100 each (Rs 20 lakhs), 25,000 (9.5 per cent) cumulative redeemable second preference shares of Rs 100 each (Rs 25 lakhs) and 2,000 (7.75 per cent) convertible debentures of Rs 1,000 each (Rs 20 lakhs). The entire public issue of Rs 65 lakhs has been underwritten. The company's authorised capital is Rs 2.50 crores and issued and paid-up capital Rs one crore (Rs 30 lakhs in equity and Rs 20 lakhs in six per cent cumulative redeemable preference shares). The present issue is for Rs 80 lakhs, out of which directors and their friends will take up equity shares of Rs 15 lakhs. The new equity shares will rank pari passu with the existing shares in all respects including the dividend. The proceeds of the present issue will be utilised for setting up a new plant to manufacture low-high carbon ferro-chrome, low carbon ferro-manganese, silica chrome and other ferro-alloys. The plant will be located at Shreeramnager adjacent to the existing ferro-manganese plant. The capital outlay on the project is estimated at Rs 520 lakhs.

HYDERABAD ALLWYN

The Hyderabad Allwyn Metal Works Ltd has earned a lower gross profit of Rs 44.92 lakhs for the year ended April 30, 1967, against Rs 77.79 lakhs for the previous year. The company's turnover has declined to Rs 5.84 crores from Rs 6.72 crores in the previous year. The directors have proposed a lower equity dividend of 8 per cent against 11 per cent for the previous year. The company's net profit amounted to Rs 9.31 lakhs against Rs 21.65 lakhs after providing Rs 2.28 lakhs for managing agents' commission, Rs 20.13 lakhs for depreciation, Rs 9.50 lakhs for taxation and Rs 3.70 lakhs for development rebate reserve. The proposed equity dividend will absorb Rs 9.64 lakhs. A sum of Rs 50,000 has been transferred to the general reserve. The directors attribute the decline in profits to a steep fall in government orders. The company's working so far dur-

ing the current year was not considered satisfactory owing to recession in engineering industry.

PAPER PRODUCTS

The Paper Products Ltd inaugurated its third conversion plant at Madras recently. The company has been in the field of flexible packaging for over 30 years. With the new conversion plant, the company's turnover was expected to go up by Rs 15 to 20 lakhs this year.

CAPITAL AND BONUS ISSUES

Consent has been accorded to seven companies to issue bonus shares exceeding Rs 1 crore. The amount of bonus shares ranges between Rs 40,200 and Rs 45 lakhs. One company has been allowed to make bonus-cum-cash issue. The consents are valid for 12 months.

Associated Power Co., Ltd, Calcutta, has been granted consent to capitalise Rs 33 lakhs from general reserve and issue fully-paid bonus shares in the ratio of one bonus share for every equity share held.

Empire Jute Co., Ltd, Calcutta, is permitted to capitalise Rs 15 lakhs from revenue reserve and issue fully-paid bonus shares in the ratio of one for every equity share held.

Groz-Beckert Saboo Ltd, Chandigarh, is allowed to issue bonus shares of Rs 5 lakhs in the ratio of 2 for 7 held on capitalisation of reserves of the company to a like extent.

Tinnevely-Tuticorin Electric Supply Co., Ltd, Calcutta-1, has been accorded consent to capitalise Rs 4.85 lakhs out of general reserve and issue fully-paid equity shares of Rs 10 each as bonus shares in the ratio of one for two held.

Aryodaya Spinning & Weaving Co., Ltd, Ahmedabad, has been given permission to capitalise Rs 4.8 lakhs out of general reserve and issue fully-paid equity shares of Rs 200 each as bonus shares in the ratio of one for five held.

Hanuman Properties Ltd, Calcutta, is allowed to capitalise Rs 40,200 from general reserve and issue bonus shares in the ratio of one for three held.

British Drug Houses (India) Private Ltd, Bombay, is permitted to issue capital of Rs 65 lakhs. Of this, Rs 45 lakhs will be issued in 4,50,000 fully-paid equity shares of Rs 10 each as bonus shares in the ratio of 3 bonus shares for every share held, on capitalisation of general reserve to a like extent. The rest, i.e., Rs 20 lakhs will be issued to the Indian public in 2,00,000 equity shares of Rs 10 each for cash at a premium of Re 1 per share, after the conversion of the concern into a public limited company.

LICENCES AND LETTERS OF INTENT

The following licences were issued under the Industries (Development and Regulation) Act, 1951, during the week ended August 26, 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. The licences issued during the week ended September 2, 1967, have already been published in our issue dated October 13, 1967. On the belated receipt of a list giving licences issued during the week ended August 26, 1967, we are reproducing the same for the readers' information.

LICENCES ISSUED

Speed Reduction Units

M/s. Deepak Industries Limited, 16, Hare St., Calcutta-1. (Budge-Budge, 24 Parganas, West Bengal): Worm Reduction

Gear Boxes, Industrial Clutches, Gear Teeth Generating Tools, etc.—Change of location from 62, Hazra Road, Calcutta, to Budge-Budge, 24 Parganas, West Bengal. (Shifting).

Machine Tools

M/s. Ralliwolf Limited, Ralli House, 21. Ravelin Street, Bombay-1. (Mulund, Bombay, Maharashtra: Precision Valve Refacers—1,000 numbers per annum. (N.A.).

Dyestuffs

M/s. Atic Industries Ltd, P.O. Atul, Via Bulsar, (Gujarat): Procion Dyestuffs—480 tonnes per annum. (S.E.).

Vegetable Oils

M/s. Prakash Trading Co. Rajmahal Road, Veraval. (Veraval, Distt. Junagadh, Gujarat): Cottonseed Oil—100 tonnes per day or 20,000 tonnes per annum. (N.A.).

LETTERS OF INTENT

Transportation

M/s. Escorts Limited, 18/4, Mathura Road, Faridabad. (Faridabad, Haryana): Vacuum Brake Control Equipment for Railways—2,000 Nos. per annum. (N.A.).

Industrial Machinery

M/s. Hindustan Transmission Products, Prop: Madhusudan Limited, Chandivali Kurla Vihar Road, Bombay-72. (Bombay, Maharashtra): PIV Gears (1-20 HP)—Capacity to be determined. (N.A.).

Engineering Industries

M/s. The Asoka Mills Ltd., Rallwayapura Post, Naroda Road, Ahmedabad-2. (Maharashtra): PVC Products, e.g., Pipes, Tubes, Profiles, Films, Sheets, etc.—5,000 tonnes per annum. (N.U.).

Chemicals

M/s. Karamchand Premchand Private Ltd., Calico Mills Premises, Post Box No. 28, Ahmedabad. (Baroda, Gujarat): Ethylene Urea, Propylene Urea, and other oxy Ureas—200 tons per annum. (N.A.); M/s. The Mysore Acetate and Chemicals Co. Ltd., Post Box No. 772, Mysugar Building, Sri Jayachamaraja Wadiyar Road, Bangalore-2. (Mandya, Mysore): Processed Articles from Cellulose Acetate, i.e., Extruded sheets and Fibres—750 tonnes per annum. (N.A.).

Rubber Goods

M/s. Swastik Rubber Products Ltd., Swastik House, Behind Kirkee Railway Station, Poona-3. (Maharashtra): Capacity per annum—i) Fabri Dams—2,000 Rft; ii) Collapsible Fuel Tanks—500 Nos; iii) Pneumatic Fenders—5,000 Ft; iv) Helmet Liners—2,00,000 Nos; v) Fire Resistance Mattresses—3,000 Nos; vi) Inflatable shelters—1,800 Nos; vii) Tank Tracks, Bogie wheels, etc.—500 Nos; viii) Adhesives for Aircraft Rockets and Missiles—3,000 Kgs; ix) Bulletproof Tanks and Bladder Tanks—500 Nos; x) Vibro Insulators—Capacity to be determined according to requirement. (N.A.)

CHANGES IN NAMES (Owners or Undertakings)

(Information pertains to particular licences only)

From M/s. Rallis India Ltd., New Delhi to M/s. Searle (India) Ltd., Bombay.

LICENCES REVOKED OR SURRENDERED

(Information pertains to particular licences only)

M/s. Agarwal & Agarwal Private Limited Dibrugarh—Tea Garden Machinery; M/s. Britannia Engineering Company Ltd., Titagarh.—Automatic Lathes; M/s. Shree Shahu Chhatrapati Mills, Kolhapur (Maharashtra)—Cotton Cloth.

Four things that delight a secretary: REMINGTON Light Touch is the latest.



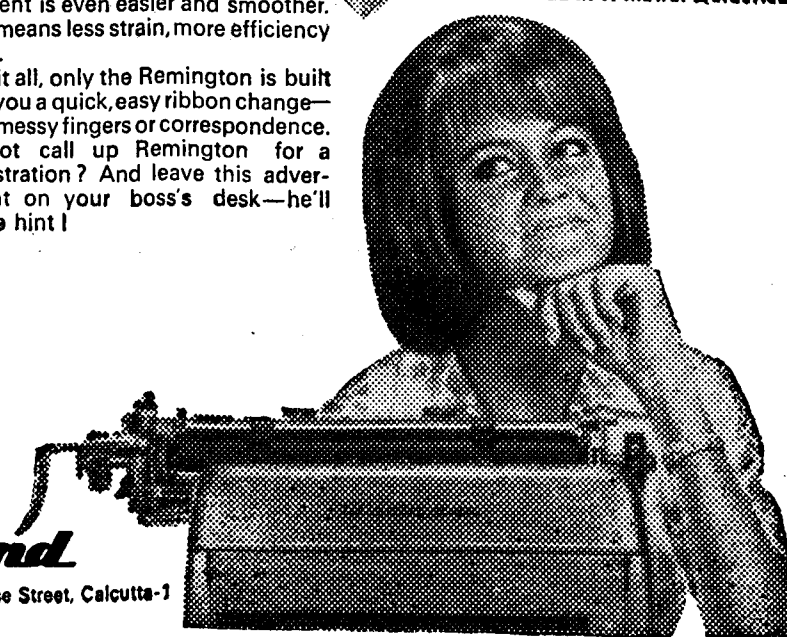
The Remington typewriter has now joined chocolates, glossy magazines and lipsticks in the Secretary's Popularity Parade. Because it makes her work easier, her typing neater!

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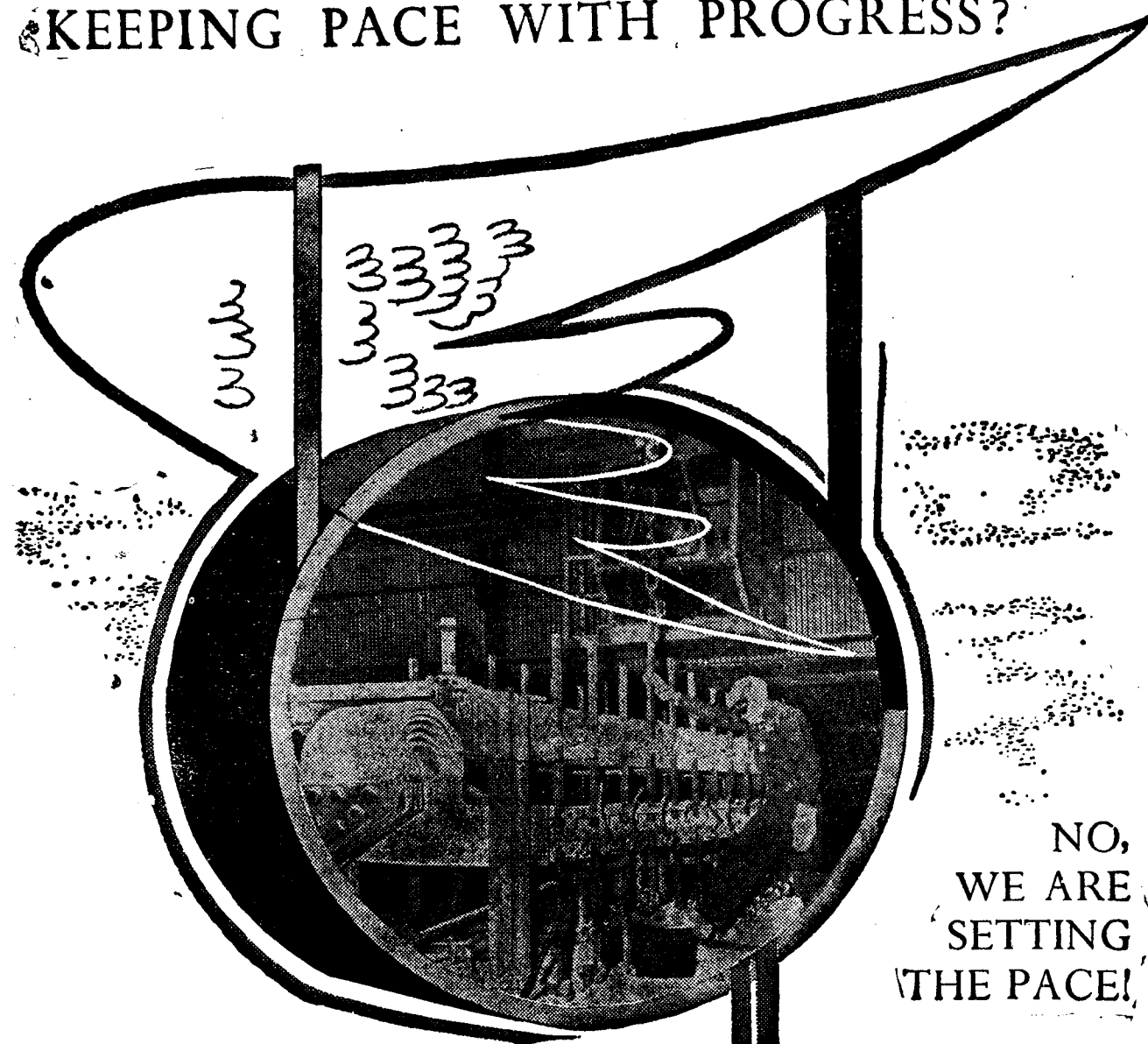
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COMPANY MEETING

INDIAN DRUGS AND PHARMACEUTICALS LIMITED

Speech of Shri Indarjit Singh, Chairman, Board of Directors, at the Sixth Annual General Meeting of the Company on 30th September, 1967 at N-12, South Extension Part I, New Delhi

Gentlemen,

I am glad to welcome you to the Sixth Annual General Meeting of the Shareholders of Indian Drugs & Pharmaceuticals Limited.

The Annual Report of the Board of Directors, together with the audited accounts, is already with you. I am taking it as read.

I. FINANCIAL:

The Company incurred a loss of Rs 6.01 million during the financial year under report. The cumulative loss since its inception is Rs 9.13 million.

The loss is practically wholly on the operations of the Surgical Instruments Plant, Madras.

The reasons for the loss and the future prospects of the Plant will be dealt with in detail later.

The Authorised Capital of the Company stood at Rs 215 million on 1-4-1967 (since then it has been increased to Rs 250 million).

The loan capital was Rs 247.844 million on the same date.

The sanctioned estimates for the construction of the works, comprising the three units of the Company, amount to Rs 506.5 million.

The Government of India advanced a repayable loan of Rs 10 million for the purchase of raw materials, etc., in 1966-67. However, preparatory expenses incurred have exceeded this loan by Rs 17.2 million. This has been done by diverting capital funds for operational purposes.

The Company obtained a loan of Rs 105 million for capital expenditure, from the Government of India, during the year under report. This, together with Rs 10 million for purchases of raw materials, etc., referred to above was spent as follows:—

(Table I)

Sl. No.	Item	Amount (Rs. in millions)
1.	Creation of new fixed assets during the year	80.22
2.	Expenditure during construction	27.42
3.	Current Assets/Loans and Advances less Current Liabilities	1.59
4.	Training Expenses chargeable to capital	0.76
5.	Loss (excluding provision for depreciation)	5.00
	Total	114.99
	or	115.00

II. CONSTRUCTION:

1. GENERAL:

The position on 1-4-1967 regarding sanctioned estimates, expenditure incurred on construction of works against them and the balance of funds available for the remaining work is given in Table II:—

(Table II)

Project	Sanctioned estimates	Expenditure incurred up to 31.3.1967	Balance of funds available for remaining work
			(Rs. in millions)
Antibiotics Project	242.64	211.82	30.82
Synthetic Drugs Project	215.71	178.14	37.57
Surgical Instruments Project	48.22	45.58	2.64
Total	506.57	435.54	71.03

2. ANTIBIOTICS PROJECT, RISHIKESH:

About 30% of the work remained to be done in the main blocks, namely Fermentation and Recovery & Purification Blocks. The work on the Finishing Block was about 50% completed.

The balance of work consisted of installation of pipes and valves in certain cases, repairs to damaged rubberlined equipment, installation of drying facilities and the critical features of services and operations based on refrigeration.

The services were completed, by and large, but all of them had not been tested for actual operation by 1-4-1967.

The Water Intake System was completed during the year at the end of the last monsoon season which was comparatively dry. The progress of work in Effluent Treatment Plant was about 70%.

These vital external services have a great bearing on the commissioning of the products and on the continued maintenance of their production. They have to be tested extensively for a reasonable period under load.

There were some awkward failures in the power system. The Uttar Pradesh Electricity Board has now moved to stabilise the power intake through two separate lines but certain works still remain to be carried out. The Company had an assurance from the Uttar Pradesh Electricity Board that all possible endeavour will be made to avoid failures on the power system. There is no spare generator in the Project. The failure, even for five minutes, causes considerable losses of materials in process.

The finishing touches to the nearly completed works, the testing of the completed works with and without load, the actual completion of the balance of the works and the arrangements for starting industrial production are some of the tasks which will occupy the better part of the current year.

The continuous industrial production will most likely start towards the fourth quarter of 1967-68.

Towards the close of 1966-67, it was found necessary, the stage of commissioning of completed assets having arrived, to bifurcate the construction and production engineering staff. A commissioning group was formed to see that all assets are handed over according to the approved drawings and specifications. This shortcoming in organisation made it difficult to locate defects well before commissioning was undertaken as the same agency was in charge of completing the works and also of taking them over for commissioning.

The collaborators have advised that, in plants of this nature with multi-product facilities, it is best to take six to nine months to stabilise production of one product before starting on another. Their schedules of supply of seed materials are worked out with this objective in view. The changes in production techniques during the course of construction are not inconsiderable. This implies preparation of revised detailed drawings and this affects the schedule of completion of works.

Nistatin is an example in point. The new technological instructions raise materials input substantially and therefore cost significantly. The drawings have still to be received. Though the process is relatively easy to master, the Company may have to wait till after the close of the current year to commission the product.

3. SYNTHETIC DRUGS PROJECT, HYDERABAD:

The Project has been divided into twenty-six district blocks of work.

Of these, the work was practically complete on the services

blocks on 1.4.1967.

The work on production blocks was in an advanced stage of completion in about half the blocks; in the others, it was completed between 60-70%.

The Effluent Treatment Plant will take some time to complete. The designing of this asset was done indigenously by the Central Public Health Engineering Research Institute, a very useful contribution to knowhow on the subject. This asset is vital for continuous operation of the Plant in view of the necessity to dispose of toxic effluent harmlessly. It is one of the vital installations, which should be satisfactorily completed, before the entire production facilities are commissioned for industrial production.

The commissioning of the boilers presented difficulties as it was not practicable to build up sufficient steam load in the initial stages relative to their minimum design capacity. The engineers of the Company had proposed a solution which has been virtually accepted by the collaborators and their expert has arrived now to supervise the commissioning of boilers.

The power supply system in Hyderabad is also a cause for anxiety. An average of ten power failures have taken place in a month and voltage fluctuations are frequent. The third feeder is likely to be commissioned by the Andhra Pradesh State Electricity Board shortly and some other changes contemplated will, it is hoped, avoid failures which can be very costly.

The products will be commissioned for industrial production progressively over the current financial year and in the first quarter of the next financial year (1968-69).

Some delay is due to changes in technology during the course of construction resulting in revised drawings and schedules of construction. The time-span of the completion of projects and estimates of construction are affected thereby but it will be more damaging economically in the long run if such changes are not introduced while there is time to do so.

Major changes were in respect of Folic Acid and Sulphadimidine. The production technology of the latter was revised drastically. It was possible, during discussions with the collaborators, to introduce the new technology on the basis of existing equipment available in the Plant to produce 50-60% of the rated production immediately. In other words, the phasing of production of sulpha products had to be done, because of changes in technology, in two steps, instead of one in terms of the original Project Report.

The limiting factors, during this year, in respect of the progress of construction were:—

- (a) the delays in the receipt of equipment from the indigenous and the foreign sources;
- (b) modifications and revision of drawings suggested by the collaborators;
- and (c) shortage of insulation material particularly Thermocol.

4. SURGICAL INSTRUMENTS PLANT, MADRAS:

The construction has been completed and the Plant is in operation.

III. PRODUCTION:

1. ANTIBIOTICS PLANT, RISHIKESH:

Non-sterile Potassium Penicillin has been produced in some quantities during tests on equipment since the closing of the year.

Energetic steps are being taken to go into production on Streptomycin during the course of this year.

2. SYNTHETIC DRUGS PLANT, HYDERABAD:

Synthetic Drugs Plant has been in production for Phenacetin.

According to the Project Report, Phenacetin was to be produced with a maximum impurity of 500 ppm. of p-Chloroacetanilide.

The Project Report was accepted by the Government, after

careful consideration in the relevant Ministries concerned, for production of Phenacetin according to the USSR Pharmacopoeia which required the impurity not to exceed 500 ppm.

However, in the meantime, the Indian Pharmacopoeia was drawn up with a stipulation that the impurity should not exceed 236 ppm.

It has been a matter of great satisfaction that the young and vigorous technological personnel of the Synthetic Drugs Plant belonging to this block has been able to overcome this problem. Phenacetin will be produced in future regularly as required by the Indian Pharmacopoeia. It is hoped that this will stop some unfortunate and ignorant criticism of the Plant in some quarters.

3. SURGICAL INSTRUMENTS PLANT, MADRAS:

The Plant produced 245,944 instruments during the year and sold 15,969 instruments. The stock carried at the end of the year was 261,160 instruments.

The instruments produced by the Plant have not found a ready market in India.

The Company has been criticised for it. It is argued that the Plant was set up without proper survey of demand. The lack of proper marketing arrangements is also considered as one of the important factors. Prices, it is stated, are high as compared to the internal competitive prices for similar instruments made in the small and medium sectors of industry.

All these reasons have probably something to do with the difficulties of marketing the products. The comparative unacceptability of Russian prototype of instruments, though vetted by a Committee of Eminent Surgeons, may be another contributory cause.

There are certain fundamental facts about the Plant which need to be appreciated so that its problems can be resolved reasonably in the proper background.

The Project Report provides for a product-mix in which nine types of instruments form 60% in quantity of the total manufacturing programme embracing 166 types of instruments. It is obvious that the plant was rated to produce 2.5 million pieces a year on the basis of sales of nine of its products at the rate of nearly 1.5 million pieces a year. These are also among the simpler instruments in the total product-mix envisaged. The economy of the Plant was thus construed on a few fast-moving items manufactured in large quantities which, it was expected, would have a ready market in the country.

But the survey conducted by the National Council of Applied Economic Research, at the instance of the Company, shows that the market is considerably restricted for offtake of instruments for the quantities expected. A further hospital-to-hospital and almost surgeon-to-surgeon survey carried out by the Marketing Division of the Company, the results of which are under compilation, seems to indicate that the needs of the market appear to be for a much larger range of instruments in limited quantities.

The Plant has thus to be completely reoriented to take note of this basic and fundamental fact.

Further, during the period of its gestation and construction, indigenous instruments industry in the medium and small sector, based largely on manual skills, has come into existence under the pressure of foreign exchange shortage. Though the surgeons are almost unanimous in their opinion that supplies are fitful as regards standards of the instruments purchased for professional work, the fact remains that the prices of instruments manufactured in the small and medium sectors are fantastically low. It is true that quality has to be supreme in the matter of dealing with human lives but the system of purchasing is such that, in the absence of almost complete lack of standardisation for instruments, the low prices prevail irrespective of the strict demands of quality.

Had indigenous instruments manufactured in the small and medium scale sectors been of standard quality, the Indian instruments industry would have captured the world market on

the basis of tremendously low prices usually quoted. This reinforces the point that ensuring strict quality costs and it is not possible for IDPL to reduce prices below a particular level if quality is the prime consideration. The Board of Directors has no doubt about the objective of IDPL in respect of maintaining the highest possible standards in regard to quality control.

The previous pricing policy which was based on landed cost, had to be revised in view of internal competition. The Board has, therefore, authorised the revision of the prices on a more realistic basis.

The production is also following, by and large, the likelihood of sales and not the set programme of the Project Report. Recently, the plant has commendably designed and got approved the IUCD and Vasectomy sets for which substantial orders have been received.

The Company has taken note of the present trends, viz., large number of types, quantities required being lower than those indicated in the Project Report and differences in designs in many cases. The demand of surgical instruments, it is anticipated, for some time to come, will be lower than the rated capacity of the Plant, making it necessary to diversify until medical facilities and number of surgeons increase. A comparison with the export prices of other countries shows that the Plant will have the capacity to compete reasonably in the foreign market, but definite opinion can only be expressed after probing of the foreign market, now being made, has been finalised. A delegation is shortly leaving for the West Asian countries but the scope of the products of the Plant may not be only confined to comparatively less developed areas.

IV. GENERAL:

The Company is at the crucial point in its career. Production will shortly commence, on an industrial scale, in the Antibiotics Plant, Rishikesh, and in the Synthetic Drugs Plant, Hyderabad. So far the facilities created have been under test, one by one, and a certain amount of production has arisen in the process. It is necessary, in complicated plants of this nature, to test the service facilities and production lines

thoroughly before commencing industrial production. This helps to avoid hold-ups of Plants later when industrial production has started.

Various important issues need urgent attention of a continuing character. Such questions as of sale of generic products versus formulations, product-mix in response to analysis of demand, costs, prices and marketing are prominent among those on which a great deal of attention is being focussed and will continue to be done in the years 1967-68 and 1968-69.

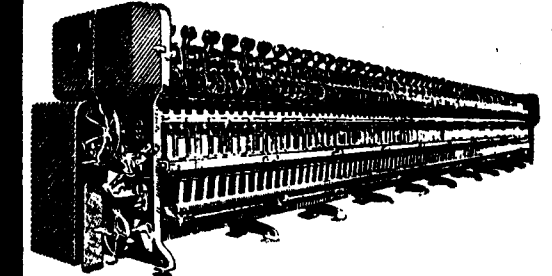
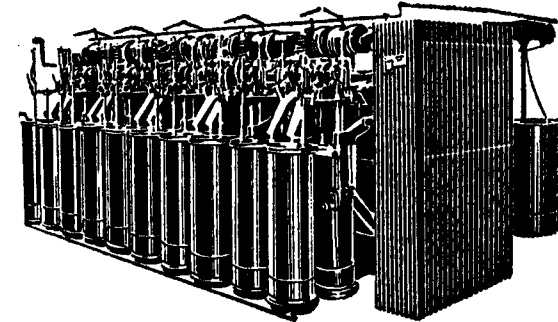
It is known that some of the capacities, included in the Project Reports, may not be required in view of the shifts in demand. It is necessary that the above two Plants, which basically consist of unit processes and unit operations, should acquire a degree of flexibility responsive to changes in demand. In other words, the Company should acquire the capacity to introduce innovations through design and research.

In certain lines the manufacturing capacity, it is anticipated, will be more when maximum production targets are attained than the demand which is likely to arise in the country in the near future. The Company has therefore to look out for markets outside India for products of this nature.

The costs in the initial stages are bound to be high. As far as can be anticipated, the costs even at the maximum rated capacity would be higher than the prices of similar products imported into India. It will not however be possible to make a profit in the financial year 1967-68 in all the three Plants.

The Company has formulated a framework within which the reduction of costs is being attempted. This can principally arise from reaching rated capacity as soon as practicable and improving upon consumption of raw materials and yields at every stage.

Basically it means that the parameters given in the Project Reports have to be improved upon by concentrated effort. The ability to innovate, to improvise and to get maximum benefit from short term research will be fully tested during the coming years if the costs in these two Plants have to be reduced to the maximum extent compatible with technological limitations of equipment and processes. The Company may have to go fur-



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ther and make changes of a fundamental character to improve the processes and materials consumption. These are however longer term problems and have to be tackled in perspective as cash begins to flow in as a result of marketing of its products.

The problems of the Surgical Instruments Plant, Madras, are sui generis. These have been dealt with fully earlier.

You would have noticed that the manufacturing capacity would be in excess of the demand. Diversification is therefore inescapable. Vigorous efforts have to be made in the marketing of the instruments. More types will have to be introduced; existing types will have to be improved taking note of the criticism made; outside markets will have to be explored. There is possibility on the latter as our costs compare favourably with the prices ruling in outside markets. We have to make an effort to improve the quality of our instruments so that they are widely accepted in all the outside markets.

As regards internal competition, the Board of Directors in its Report has rightly pointed out that there is a limit to reduction in prices if the quality has to be maintained which is paramount in products of this nature. The Company is moving already on the question of standardisation of instruments so that low quality and low priced instruments do not, by reason of advantage in prices alone, get acceptance by the purchasing authorities.

The Company is aware of the criticism of the Projects from various sides. Some criticism is inspired by those with whom one has to compete; the other criticism is based on hearsay and facts which are not wholly correct; some criticism is valid and the Company is only too glad to take note of such constructive effort at improving its working.

Of the two former types of criticism, mention may be made briefly of the manufacture of Phenacetin in the Synthetic Drugs Plant, Hyderabad. There has been persistent effort at denigrating the quality of the product. It can be stated authoritatively that the product to be sold in the market will be well within the specifications laid down by the Indian Pharmacopoeia.

Another criticism is that the Synthetic Drugs Project, Hyderabad, is already three years behind schedule. It may be true taking the time from the conception of the Project until now. However, the original plan was to receive the bulk of supplies in India from the calendar years 1963 and 1964. Some of the equipment has been delayed both by the Indian and the Russian parties.

This gives only three year period for construction and erection. The criticism that the Project is three years behind schedule is not therefore quite correct having regard to the period from which the work of construction and erection began.

Another line of criticism has been that IDPL has not given priority to Streptomycin production in its programme in the Antibiotics Plant, Rishikesh. The priorities for the supply of equipment in sequence were finalised towards the end of 1961. The present crisis in Streptomycin supplies was not anticipated then. Nevertheless, in spite of certain difficulties of change in the middle of a programme, we are sanguine that the current national priorities will not be overlooked and that the Company is straining its best to see that Streptomycin production is expedited by at least six to nine months having regard to the earlier schedule.

There is certain justified criticism regarding marketing arrangements for surgical instruments. The Marketing Division has now been established and we hope that progress will be made expeditiously to the extent the demand possibilities, as they exist, have to be maximised by the IDPL.

There have been undoubtedly difficulties in the construction of the Plants particularly as regards supplies to be procured from within. The continuous supplies of materials present a great deal of difficulty in view of the limited choice of foreign exchange available. The prices are also consequently high as global enquiries cannot be made. However, these difficulties are being faced by the industry as a whole in India and

we are not likely to be an exception in this matter. Very hard work is required on the logistics front in the IDPL so that production once begun is continuously carried on according to schedule.

I might state that we are in the midst of intense competition from substitutes. The Pharmaceutical industry has in all countries been situated and carried on against this type of competition. Misunderstandings therefore will be created about us but we have to be alert.

We know that there is nothing but hard work ahead of us. We have a difficult job on hand. We have to meet all the challenges, legitimate or otherwise, and try to make good the investment made by the country in these ventures which are of a fundamental character insofar as the continued health and vitality of the population are concerned. We are also implementing projects of a pioneering character as production is being attempted from basic raw materials upwards and not from proved intermediates developed by agencies outside the country.

The question of patents will have an important place in the strategy of the Company regarding production and sales. This is being studied. It is an important issue and will continue to receive the closest attention of the Company.

In the end, I wish to thank all my colleagues on the Board of Directors for their very co-operative and constructive role in the deliberations of the Company. I also wish to thank all my colleagues in the Plants for the hard work that they have done and would appeal to them that they should be confident of the future as they are engaged in a pioneering task of great value to the country.

(NOTE: This does not purport to be the proceedings of the Annual General Meeting).

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RECORDS AND STATISTICS

Prices and the Producer's Response

AN INTERESTING study on prices and their impact on the producer of agricultural commodities has been given in the annual report of the Food and Agriculture Organisation of the United Nations entitled 'The State of Food and Agriculture, 1967'. According to the study, the main cause of instability of farm prices is the irregular and seasonal nature of agricultural production and an increase in prices does not necessarily bring about an increase in the availability of foodgrains. Excerpts from the study are given below:

The main cause of the well-known instability of farm prices is the irregular and seasonal nature of agricultural production. The level of crop production is liable to vary greatly from year to year under the influence of weather and sometimes of pests and diseases. At the time of sowing it is impossible to predict, except within very wide limits, the size of the harvest. Even livestock production (though less unstable) may vary considerably, for example with the condition of pastures. Nor can be level of production of most of the major commodities be quickly adjusted to demand. For some commodities, such as tree crops, beef or milk, some years of gestation are needed before production can be increased. Others, such as cereals, occupy large areas which in most countries cannot be quickly expanded in times of shortage, or used for other purposes if production temporarily exceeds demand.

The year-to-year variations in production are particularly serious because of the low demand elasticity of most farm products. Prices are highly sensitive to changes in supply. In years when crops are heavy the level of prices is low, so that in a free market economy the farmer is no better off, often worse off than in an average year. Conversely when crops are light prices tend to rise sharply. But then the smaller farmers have relatively little to sell, particularly of subsistence crops, of which they must reserve enough for seed and for the minimum needs of their families before sending supplies to market.

For cash crops, and even for staple food crops in the case of the larger farmers, it is true that changes in the volume of sales may partly offset the effect of price changes on gross returns. However, the farmer is concerned with the net rather than the gross return. The expense and labour of harvesting and marketing are greater for a heavy crop, and the larger return due to increased sales is therefore by no means all clear gain.

Dearth of Information

In spite of the great importance of such information to governments planning to stimulate food production, there is even today a surprising dearth of information on the prices actually received by farmers in developing countries. Prices of farm products in wholesale markets are readily available, but few countries publish any regular information on prices at the farm level. Where farm prices are published, they often prove on investigation to be no more than wholesale prices adjusted for the estimated average cost of transport and marketing. Such estimates may fairly represent the return to the larger farmer, but they almost certainly overestimate the return to the small farmer who sells to a local intermediary in his village or on his farm.

It is necessary to consider more closely the objection, often made by opponents of higher or stabilized prices for farm products, that an increase in prices does not necessarily bring about an increase in output, particularly of foodgrains, and that the reverse may often be the case. In other sectors of market economies it is taken for granted that a producer will not increase his output unless he expects it to be profitable; that is to say that he expects to find a market outlet for the additional production at a price which he considers profitable,

allowing for any economies which may result from a larger scale of operations. But this principle, taken as axiomatic in other sectors, has not found easy acceptance in the agriculture of developing countries, especially for staple foods. It is often argued in these countries that a fall in price may lead to increased marketings, as farmers will try to compensate for the lower price by larger sales at the expense of their own consumption ("hunger sales"). Conversely it is maintained that an increased price will lead to smaller sales as farmers need to sell less in order to obtain the cash needed for essential expenditures.

A further point worth noting is that the consumption behaviour of the producers whose sales react inversely to prices is economically entirely rational. A higher grain price means that their income is increased and they respond by increasing their food consumption at the expense of grain sales.

Where high prices have occurred, even for a short period, their effect on output is most clearly seen in cash and export crops. In the first place their marketing is usually better organized, so that the impact of price changes in wholesale or world markets is transmitted back to the farmer much more rapidly and effectively than in the case of staple crops. Secondly cash and export crops usually occupy a fairly small part of the agricultural area and their production can be stepped up not only by raising yields, but also by diverting land from other crops. Foodgrains or other staple foods, in contrast, usually already occupy the largest part of the farm area. The diversion of land from other crops can therefore provide only a limited increase in the foodgrain area, and increased production must be sought by higher yields or by the reclamation (where available) of new land. A third point is that farmers in developing countries are usually more ready to take the risk of experimenting with new varieties or new practices with cash crops than they are with the foodgrains which must provide their main source of nourishment in the year ahead.

Broad Decisions Needed

If price stabilization is adopted as an incentive to production, a number of broad decisions have to be made. Should the government limit itself to intervening in the market when prices fall unduly, but without announcing the price level at which it will begin to buy? This leaves the government great flexibility and also enables it to limit its financial commitments, but may not give farmers the necessary confidence to embark on any major expansion of output.

Or, should the government specify a price range between which prices are allowed to fluctuate, unloading supplies from reserve stocks or imports if prices exceed the range and buying for reserves if they fall below it?

Or again, should the government, in order to give greater confidence to farmers, go further and specify a fixed price, or a minimum price at which it is prepared to buy any quantities offered, in both cases subject to any necessary price adjustment for differences in grade?

Whatever method is adopted, it will be necessary to decide on the level at which prices are to be stabilized. This level must be both compatible with the general level of prices in the country and sufficiently attractive to farmers to induce them to step up their output for the market on the scale desired.

Throughout it is the relationship of prices rather than their absolute level which is important. The stabilization of farm prices at a relatively low level may be a valuable incentive to production if the prices of fertilizers and other farm requisites are low, and if the cost of living is relatively stable. Without these safeguards even a high level of price supports may be ineffective.

Whatever the method used to decide price support levels,

in developing countries, there are some restraints which are inescapable and which cannot be ignored for more than a short time without imperiling the progress of the economy. For example in many developed countries, prices of the main farm products are maintained in domestic markets at an appreciably higher level than those ruling in international markets as a means of raising farm incomes nearer to those in other occupations. This implies transfer payments to agriculture from other sectors of the economy, through higher prices, to consumers or some form of government subsidy. Such transfer payments are possible in developed countries where agriculture may account for no more than 10 per cent or even less of the population and a still smaller percentage of the national income. But they are not feasible in developing countries where the agricultural sector is large and the other sectors too weak.

Moreover, changes in the relative prices of different farm products can have little influence on the more difficult problem of raising the whole level of farm production, which is likely to be the major aim of an incentive policy in most developing countries. For this the price relationships between agriculture and other sectors of the economy would be more relevant. Still more important, however, would be the elimination of the insecurity resulting from wide price fluctuations at the farm level, and also the elimination of institutional blocks to production such as deficiencies in the system of marketing, of farm credit or of land tenure. If these hazards and obstacles can be removed, and if markets at remunerative prices are assured for the increased output, then the way is clear for the increased inputs and investment necessary for an overall expansion of farm production.

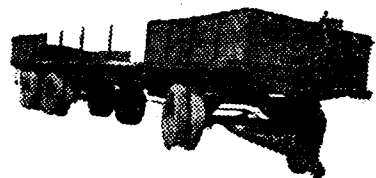
Policies to stabilize farm prices as an incentive to increase production can obviously have little or no permanent effect unless the producer can count on receiving the price he is entitled to or something closely approaching it. It is not easy, however, to implement producer price policies effectively at

the farm level, especially in developing countries where finance and trained staff are both scarce and where marketing usually involves the assembly of small surpluses from thousands of largely subsistence cultivators. This is bound to be much more expensive than when the main production comes from large commercial farms or plantations.

Two broad aspects of agricultural price stabilization and support may be distinguished: "macro methods" and "micro methods". The first, which can be carried out only by governments or by organizations operating under government authority, are designed to establish the general level of prices for a commodity in the country. This can be done by regulating the flow of imports or exports by licensing, quotas, direct government trading (or more loosely by the imposition of import or export duties), or by controlling the flow of domestically produced supplies to the market by means of limitations on production or marketing regulations. In a "perfect" market, such broad methods might be enough to establish also the level of producer and consumer prices. In practice, and especially in developing countries, such macro methods have to be supplemented by more direct measures at the farm level and often at the retail level as well. At the retail level, they include such measures as price ceilings or standstill orders or, if these are not enough to combat the black market, the opening of government "fair price shops" as for example in India, Costa Rica and Mexico.

At the farm level with which this study is mainly concerned there is a wide range of methods. They may amount to little more than establishing a legal minimum price or fixed price to producers, with practically no administrative machinery to enforce it other than the regulation of foreign trade. As a further stage, they may include official purchases in wholesale markets in order to maintain a minimum level, to reduce seasonal price variations or to equalize prices between markets.

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EASTERN ECONOMIST

OCTOBER 27, 1967

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Danger Signals

THE EXPLOSION of three high intensity bombs near the secretariat building of the Government of Assam in Shillong on October 17 has not caused as much concern in New Delhi as could have been expected normally. This, of course, is no solitary incident in that part of our country. Sometime ago, a passenger train met with a disaster in this state because of the sabotage by some miscreants. The hostile Nagas as well as the Mizos have refused to come to terms with the union government under one pretext or the other. The sabotage work engineered by these hostile elements cannot certainly be allowed to be continued.

The situation in West Bengal is worse. The Chief Minister, Mr Ajoy Mukherjee, made a statement recently which clearly indicated that he had in his cabinet some ministers who were undermining the rule of law in the state. The West Bengal ministry has been a heterogeneous group from its very birth. That it was the anger of the people of West Bengal against the Congress government there which had brought it into being, there is no doubt. What is dangerous about the present West Bengal governmental set-up is that a section of the ruling United Front has no faith in democratic institutions; it will stoop to any tactics for the downfall of democracy there.

That the investment climate in West Bengal is extremely unfavourable at the present moment, was highlighted by Mr G. D. Birla at his recent press conference at Renukoot. The condition of law and order in West Bengal, according to Mr Birla, has created a situation in which no industry can function normally or execute plans of expansion. Mr Birla has also revealed that some of the entrepreneurs were shifting their business from West Bengal. While he was not planning to shift any of his units from this state, his group of industries was not planning to expand, said Mr Birla. The foreign collaborators are refusing to join hands in proposals for setting up industries in West Bengal. This is indeed a sorry state of affairs and if things are allowed to drift in this manner, it is certain that both the states in north-east India, namely West Bengal and Assam, will become permanent political sores.

The turmoil in this area deserves greater attention of the Home Minister than he has been able to bestow on it so far. The signals being relayed from north-east India are of great portent. Mr Chavan cannot just shrug his shoulders and refuse to take note of these developments because he would not like to interfere in state matters. He assumed the charge of the Home portfolio with great confidence early this year but he has, it seems, been losing grip over the situation. He has devoted more attention to some of the less important issues such as the abolition of privy purses, social control of banks, nationalisation of general insurance, etc., while he has tended to ignore the difficult political situation which has been gradually developing in the north-eastern region of the country. We wish to draw his attention to the danger signals being relayed from this region which, if left unattended today, will become a major concern tomorrow. The time is short. Let him not let matters drift.

The deliberations of the central cabinet on October 25—prior to the departure of most of the ministers for Jabalpur where the All-India Congress Committee is having its next session—clearly showed that the government had been bogged down in the 10-point programme while the law and order situation particularly in the north-eastern states of Assam and West Bengal had been completely ignored. The opinion of the senior members of the cabinet was sharply divided on the various aspects of this programme and it was thought proper to spend much valuable time on matters of relatively less importance. The atmosphere created by some of the leftist elements in the Congress party during the past few weeks has clouded the real problems facing the country and has tended to focus attention on matters which could certainly wait. It is a pity that the senior members of the cabinet have allowed themselves to be swayed by the less pressing problems.

The Ammonia Controversy

ALTHOUGH THE third Plan performance in the field of nitrogenous fertilisers left much to be desired, the tentative target of two million tonnes nitrogen capacity fixed for 1970-71 appears to be within reach. Currently, we have a capacity to manufacture 681,000 tonnes of nitrogenous fertilisers. In the next few months, with the commissioning of four projects—Namrup, Gorakhpur, Visakhapatnam and Ennore (expansion)—capacity to the extent of 213,000 tonnes would be added. Another five projects—Durgapur, Cochin, DCM-Kota, FACT's fourth stage expansion and Gujarat (expansion)—with a total capacity of 576,000 tonnes, are expected to go on stream in 1969-70. Yet another four schemes—Madras, Namrup II, Barauni and ICI-Kanpur—are due for completion in 1970-71; they will add 694,000 tonnes capacity. Our installed capacity to produce nitrogenous fertilisers, thus, should go up to 2.164 million tonnes by 1970-71. The actual production in that year may be of the order of 1.5-1.6 million tonnes.

In view of the rapidly growing demand for nitrogenous fertilisers, four other projects—Goa, Trombay (expansion), Mangalore and Haldia—have been licensed. Letters of intent have been issued for two more projects—Modi's venture at Ghaziabad and a co-operative venture at Kandla. These six schemes with a total capacity of nearly 1,145,900 tonnes may materialise in the first or the second year of the fifth Plan. If four more projects currently under the consideration of the government—Mirzapur (Birlas), Mithapur (Tatas), Vizag (expansion) and Atlantic Richfield's scheme—are also cleared before the expiry of the deadline fixed for the 1965 concessions—December 31, 1967—the nitrogenous fertiliser manufacturing capacity may go up to nearly four million tonnes by the end of 1972 or early 1973.

The above data show that the availability of fertilisers will improve considerably in the next five or six years. But we cannot afford to rest on our oars. The upsurge in the demand for the new high-yielding varieties of seeds witnessed lately, as a result of the prices of farm products scaling new heights, can be expected to necessitate a much faster expansion of our fertiliser industry in the 1970s than is projected at present. With experience gained in the setting up of fertiliser plants, development of some local know-how as well as of the capacity to produce fertiliser manufacturing equipment and the purchase of foreign know-how, the country can indeed face the future with confidence. But one important problem that stares us in the face is the arranging of the necessary raw materials, especially the main intermediate raw material, i.e., ammonia.

The technological breakthrough in ammonia manufacture during the past 10 years has made the traditional raw material—coal—an uneconomic source. Even in the advanced countries of Europe, not excluding West Germany and Britain, which have vast coal reserves, naphtha has replaced coal in the production of ammonia. In line with this global trend, the major portion of our programmed fertiliser capacity has been based on naphtha. But the

latest estimates of the Ministry of Petroleum and Chemicals indicate that if all the fertiliser plants which have already been licensed, go on stream as scheduled, along with the drastically curtailed petrochemicals programme, significant shortages of naphtha would develop by 1972-73.

This raises the question: On what should we base our future fertiliser manufacturing capacity? Besides coal and naphtha, the third major raw material for ammonia manufacture, thrown up by the recent technological advance, the expansion in the size of fertiliser plants and the improvements in transport and storage facilities, is natural gas in vast quantities which are presently flared in the oil-gas rich west Asia. Only a technical appraisal by experts, of the Tatas' proposal to produce at Mithapur nitrogenous fertilisers through the use of coal and the atom ultimately can establish whether coal can regain the pre-eminent position it enjoyed as the feedstock for ammonia manufacture. The real alternative for the present appears to be between naphtha and natural gas as feedstock for the production of ammonia.

Naphtha supplies from indigenous sources, of course, can be improved if we expand our oil refining capacity. But there are obviously limitations to it. Our presently proved or indicated crude reserves being not more than 150 million tonnes, any large-scale expansion in our refining capacity will necessitate imports of crude oil. But even if the refining capacity is augmented, will it be judicious to commit all the additional supplies of naphtha to fertiliser manufacture? The development of the petrochemical industries apparently has to be encouraged at a fast rate; its naphtha requirements may have to be given priority over the requirements of the fertiliser industry.

This may necessitate import of naphtha or ammonia for fertiliser manufacture. The distress sales of naphtha which have been taking place in the world market till now as a sequel to a rapid expansion in the oil refining capacity in several countries, has made it a more economical feedstock for ammonia manufacture than natural gas. But owing to the large-scale global expansion of the fertiliser industry with naphtha as base, this feedstock may in the near future become a scarce commodity. On the other hand, expansion in the production of ammonia from natural gas should bring into play the economies of scale. Natural gas may thus become a more economical feedstock for the production of ammonia than naphtha.

The recent decision of turning down the imported ammonia-based fertiliser project of Dharamsi Morarji seems to be short-sighted and more sentimental and political than economic. Basing of a fertiliser unit on imported ammonia should apparently reduce the capital outlay of the project as the cost of setting up the ammonia unit will be obviated. Further, the execution of such a project should be expeditious. The political considerations, howsoever weighty ostensibly, do not stand close scrutiny, for the crude oil imports

have also to come from the resources of the foreign oil companies operating in west Asia. Basing of a couple of fertiliser units on imported ammonia, therefore, may not be injudicious. The fears that we will commit ourselves to imports of ammonia (to be paid for in foreign exchange) is unwarranted. The ambitious oil exploration programme currently being carried out in the country can well throw

Whither West Bengal?

THE RECENT political developments in West Bengal, far from contributing to ministerial stability, have worsened the political situation. The Chief Minister claims that the "crisis" is over and that his cabinet colleagues have reiterated their loyalty to his leadership. But considering the nature of the coalition (which consists of 14 parties with widely different ideologies) it is extremely doubtful if in the next six months the present cabinet in West Bengal will be able to work even with the little spirit of unity and strength that it was able to display in the first six months of its career.

However, if Mr Ajoy Mukherjee and his cabinet colleagues even at this stage resolve sincerely to work as a disciplined team and tackle the state's problems earnestly, they can do some good to the people. The government's first and foremost duty, of course, is to enforce strictly the rule of law. The historic judgment of the Calcutta High Court, while declaring "gheraos" illegal, also condemned the state government for encouraging this practice and for adopting an attitude of indifference to acts of wanton violence done in the name of settlement of labour disputes. Though the judgment indicts the state government, the latter should welcome it since it will actually help to restore, among the employers and the public in general, confidence in the impartiality of the administration and the police in particular. The government should also announce immediately its new policy towards labour disputes. The proposal to set up a cabinet sub-committee to consider labour relations seems to be a sound one. But if it should succeed in promoting cordial relations between labour and capital, it is necessary that the constituent parties in the United Front should prevail on their respective trade unions to observe strictly the code of discipline and to settle all disputes according to lawful procedures. Lawlessness in West Bengal has been allowed to go too far in the last six months—it has actually led to some flight of capital and management—and it is the workers, more than anyone else, who have suffered in the form of loss of wages or employment or both.

Food and finance are the other urgent problems to which the state government should give careful attention. The state is reported to have produced a bumper crop this year, but the people can benefit only if policies regarding procurement and distribution are conceived wisely and implemented efficiently. Timely and adequate supplies from the centre are, of course, important but it is for the state

up some new sources of natural gas, which can be utilized for producing ammonia indigenously. Another reported objection to the import of ammonia that it is unsuitable for the production of urea is equally untenable. Only technical experts can say whether it is so. But the scope for the application of fertilisers to our agriculture is so large that there is need for all types of nitrogenous manures.

government to convince the centre and the public that it is also making serious efforts to intensify production and procurement. Unfortunately, the state's Food Minister, Dr P. C. Ghosh, does not seem to enjoy the wholehearted support of all his cabinet colleagues. But they should remember that if they are unable to provide enough food at fair prices even in this year of bumper crops, it is the cabinet as a whole, and not merely the Food Minister, who will be held responsible.

As regards the financial position of West Bengal, Mr Jyoti Basu, the Finance Minister, has declared recently that it is not alarming. Meanwhile, the state government seems to have received reports from the districts about the difficulties caused to contractors and others on account of the decision to suspend payments of their bills. Although the full details of the state's latest financial position are not available, enough is known to show that it is far from comfortable. West Bengal's overall deficit in 1967-68 is placed at Rs 36.4 crores compared to a deficit of Rs 16.3 crores in 1966-67 and a surplus of Rs 9.8 crores in 1964-65. Of the 16 states, West Bengal seems to have the largest deficit, made up of Rs 18.20 crores on revenue account and Rs 18.21 crores on capital account. The state government is yet to take effective measures to reduce this deficit. Its development expenditure on revenue account is estimated at Rs 129.55 crores in 1967-68 compared to Rs 90.52 crores in 1965-66 and Rs 105.78 crores in 1966-67 (revised). The expenditure on education is estimated to increase from Rs 37.07 crores in 1966-67 (revised) to Rs 46.24 crores in 1967-68, medical and public health from Rs 18.37 crores to Rs 22.37 crores and agriculture, veterinary and co-operation from Rs 17.33 crores to Rs 20.77 crores. The non-development expenditure is estimated at Rs 89.68 crores in 1967-68 compared to Rs 88.59 crores in 1966-67 (revised) and Rs 74.20 crores in 1965-66. In the category of non-development expenditure, the biggest item is civil administration which absorbed Rs 32.29 crores in 1967-68 as compared to Rs 28.04 crores in 1966-67 (revised) and Rs 25.43 crores in 1965-66. The poor performance of the state enterprises also deserves mention. The net contribution of public enterprises in 1967-68 is placed at Rs 80 lakhs compared to Rs 99 lakhs (revised) in 1966-67 and Rs 81 lakhs in 1965-66. West Bengal's finances do offer considerable scope for improvement in many ways but not much can be achieved in this direction so long as the state cabinet does not function effectively and Mr Jyoti Basu, the Finance Minister, has to spend most of his time in fighting the "conspiracies" he sees everywhere.

Petrochemicals and Copolymers

MANUBHAI SHAH

SINCE THE last war, the progress of the petrochemical industries has been phenomenal all over the world. The growth and diversity in usage of high polymers which have taken place in the last decade are really spectacular. Due to the intensive oil exploration that we have launched upon in our country, we may also emerge as a leading producer of copolymers, petrochemicals and plastics in due course.

That our petrochemical industry at present is in the infant stage is apparent from the record growth of this industry elsewhere. The estimates of consumption of plastics by major producing countries as given in the table below bring out this point clearly:

Country	Per capita consumption of plastics in Kgs.
USA	22.1
W. Germany	26.2
Japan	13.3
UK	14.6
Italy	9.5
France	13.1
USSR	3.2
India	0.08

These figures illustrate the vast gap in the field of plastics between the advanced countries and India, though they do not show the fast speed with which production of plastics has grown in the advanced countries. For instance, in Japan total production of plastics increased from 151,000 tonnes in 1956 to 1.55 million tonnes in 1965, a ten-fold increase in a decade. PVC formed about one-third of the production in 1965, with polyethylene and polystyrene together accounting for another third of the total. The production of urea resin in Japan, mainly used as an adhesive in the plywood and similar industries, amounted to 250,000 tonnes. In the USA, total production of plastics increased from 1.2 million tonnes in 1956 to 4.57 million tonnes in 1964 and to nearly 6 million tonnes in 1966. Out of this, the production of low and high density polyethylene accounted for 1.5 million tonnes and the production of PVC and copolymers was about a million tonnes each. The figures for polypropylene and polyesters were significant with about 200,000 tonnes each. The production of phenolics was larger than that of urea resins.

In the United Kingdom, the production of plastics which was about 200,000 tonnes in 1956 increased to 878,000 tonnes in 1964 and rose to a little over a million tonnes in 1966. In West Germany the production of plastics increased to 2.29 million tonnes, in Italy to 1.06 million tonnes, and in France to 759,000 tonnes in 1966. This is nothing short of a revolution in the young industry of polymers. In the UK, France and Italy, polyethylene, polystyrene and PVC constitute nearly two-thirds of the total production of plastics. In the UK production of polyethylene equals the combined production of PVC and polystyrene, whereas in France and Italy, PVC leads over polyethylene. In West Germany, condensation products and cellulose taken together are almost as important as the total production of the three established polymers. In the European countries, polypropylene has not yet attained as significant a position as in the USA. Each of these countries exports about 150,000 tonnes of plastics every year, and imports similar tonnages, except in the case of Japan and the USA, whose imports are only of the order of 50,000 tonnes each.

The impressive growth of the polymer industries in the last decade is the result of constant research and development, leading to unusual applications of plastics all along the line. From thin film for liners in bags or for wrapping foodstuffs,

the use of polymers has now extended to rigid or woven sacks. Polyethylene pipes for exterior water lines and PVC pipes for drainage, sewer and affluent lines and water mains are now in vogue in many countries. Disposable polyethylene coated board packaging for milk is now common in the USA. This method as well as packaging of milk in polyethylene film sachets is becoming popular in many countries in Europe. The use of moulded plastic crates for milk and soft drink bottles is firmly established. Moulded polystyrene vials, caps and boxes, and other consumer products such as light fixtures, disposable syringes and other medical equipment and cotton reels have established markets. There is expected to be a spurt in the use of PVC bottles and containers when they are accepted generally for packing food products such as fruit squashes. PVC footwear and gum boots are becoming increasingly popular.

The largest use for plastics can be forecast in the building industry. Insulated cables and floor tiles made of PVC, and luminous ceilings and finishes are already popular. Foamed plastics such as rigid urthane and polystyrene are finding increasing applications for insulation, because of properties superior to those for natural materials such as cork. PVC sheet is used for fabricated duct-work for air-conditioning, PVC extrusions for window profiles, and rigid PVC for siding, door frame, and window sash. More versatile structural materials are now available in the form of glass reinforced plastics. Almost all plastics are superior to common metals in their resistance to corrosion and immunity from microbiological attack. Their strength to weight ratio is high and they can be fabricated easily into complex shapes. With the gradual acceptance of plastics as satisfactory materials of construction in Building Codes, it is expected that in the near future glass-fibre reinforced plastics will serve as components for load bearing elements, roof sections and partition walls of multi-storey buildings. Entire bathroom assemblies can be produced now in factories for incorporation in prefabricated houses. For boats up to about 80 feet in length, glass reinforced plastics have proved satisfactory as constructional materials.

Fall in Prices

The progressive substitution of plastics for traditional materials in all directions has been accelerated also by a continuous decline in the prices of all plastics, and particularly of polyethylene, polystyrene and PVC. Today, these three materials are cheaper than all common metals with the exception of steel. Prices have continued to fall, because of a changeover to cheaper raw materials, the economies of large scale production and improved technology. Not many years ago, acetylene was obtained from calcium carbide, but with the rising costs of coal and power, there is a tendency to produce acetylene from naphtha or natural gas, or substitute it by the cheaper ethylene or propylene. In the USA and in some other countries, the cost of ethylene has been reduced—by producing it from refinery gas, LPG or ethane separated from natural gas: sometimes it is produced from alcohol or separated from cokeoven gas. In the last two decades ethylene and propylene have been obtained increasingly from the pyrolysis of naphtha, whenever low-cost surplus naphtha is available as in Europe and Japan, or when there is a simultaneous demand for both the olefines. An annual output of 200,000 tonnes of ethylene is regarded now as necessary for an economic unit for the production of olefines. As compared to the prices abroad, our prices are two to three times higher for each of these products. This is mainly due to high cost of the raw materials and the small scale of our manufacturing plants. The economies of scale are nowhere more prominent and effective as in the production of petrochemicals, copolymers and plastics.

In the ECAFE region, India is one among five countries

which produce polymers, the other four being Japan, Australia, Taiwan and the Republic of Korea. Our activity in the field of plastics began soon after the last war as a processing industry based on imported raw materials. The first basic materials, phenol-formaldehyde resin, was produced in our country in 1946. Although a large number of units started producing moulded as well as extruded consumer products such as soap boxes and tooth brush handles, the total annual consumption of all polymers did not exceed a few thousand tonnes. This situation was responsible for the small capacity of the first units licensed by the government for the production of polystyrene, polyethylene and PVC. The capacity of the first unit for polystyrene was 2,500 tonnes per year, to be made from imported styrene monomer; it commenced production towards the end of 1957. Styrene monomer itself was made about three years later, employing ethylene derived from alcohol. Two units for low density polyethylene, with capacities of 3,600 and 2,250 tonnes, also based on ethylene obtained from alcohol, started production in 1958 and 1960, respectively. PVC was made in our country for the first time in 1961 to the extent of 3,600 tonnes per year, employing carbide-based acetylene. All these plants have expanded their capacity and two new units for PVC have come up. At present, our annual production of high polymers stands at 36,000 tonnes, and restricted imports of polymers amount to about 10,000 tonnes. These supplies are totally inadequate to feed the growing number of processing units and their range of products. Consequently, there have been serious complaints of inadequacy of raw materials, particularly about supplies of low density polyethylene.

Improved Situation

Chronic shortages of raw materials and high prices of plastics made in units of small capacity have hindered the greater application of plastics for non-conventional uses. This situation will completely change in the near future. Recent estimates show that as a result of expansions and new units under construction, the total production of plastics will increase to about 70,000 in 1968 and to 180,000 tonnes of polymers per year in 1971. This includes 80,000 tonnes of PVC, 25,000 tonnes of polystyrene, and 40,000 and 25,000 tonnes of high and low density polyethylene. Prices are expected to be lower as more than half the production will be based on ethylene and acetylene obtained from naphtha. While this is a commendable progress, as compared to the world record in this field and the speed with which production and use of plastics are increasing in the world, our progress in this field will be totally inadequate. Much resourcefulness and a far-reaching policy making decisions will have to be made before we can fully exploit this industry for the welfare and progress of our country.

With the increase in production that is in the offing, our plastic industry will have to face a new challenge. Until recently, it was necessary to devise measures to ensure an equitable supply of available raw materials to all units in the organised and the small-scale sectors. Very soon the supply will be greater than the immediate demand, and the emphasis will have to be on developing new capacity for utilisation of the total production of the basic materials. So far it was necessary for the survival of units in the small-scale sector to reserve for it some fields of production, including extrusions and mouldings of different types. It may be necessary to relax some of these reservations now for promoting the use of glass-fibre reinforced plastics and moulded components for structural and other industrial uses, in furtherance of our programme of import substitution. Our industry will have to adopt modern packaging methods for improved preservation of consumer products and to impart an attractive finish for export of manufacturing packaging materials made of plastics. Greater use of flexible plastic or plastic-coated paper packaging will help to save tinplate and aluminium foil.

The expansion in the production of polymers and plastics is likely to be very favourable for increasing our exports. At present our annual exports of plastic goods amount to a total

value of three to four crores of rupees. Plastic bangles, coated jute fabrics, linoleum and moulded and industrial plastic goods are the main export items. From next year, it should be possible to increase the export of resins and compounds substantially and also to extend the range of processed goods available for export. With appropriate efforts, there is every possibility that our annual exports of plastics and plastic manufactures would increase in the next two years to ten crores of rupees and more. The emergence of a large plastics industry should help to expand direct and indirect exports of plastic goods and packaging materials. There are also some important secondary developments which are likely to materialise in the chemical industries due to increasing production of polymers and plastics. The most obvious example is of caustic soda and chlorine industry. At present internal prices of caustic soda are very high in relation to the probable f.o.b. realisation on exports, because caustic soda has to bear a substantial burden of cost on account of unutilised chlorine. With the rapid growth in the production of PVC, chlorine will have a substantial new outlet. When full utilisation of chlorine is achieved in the next two or three years, the market price of chlorine will rise as it has done in the advanced countries, and that of caustic soda will proportionally fall, until they become about equal. About the time this happens, it will be possible to export large amounts of caustic soda without any major subsidy.

In the progress of our plastic industry from a scratch to the present position in 20 years, manufacturers have shown commendable initiative in adopting processes and technology developed abroad as well as in training men, skilled in the diverse operations of the industry. I hope the same initiative will be displayed in the next few years in developing newer technology and application of plastics with research carried out in the country. If we are to progress fast in this field, the polymer and petrochemical industries must invest and spend annually about five to 10 per cent of their total annual expenditure on research in "process and products" so that we may not be laggards in the expanding technology of this industry. When the production of plastics reaches Rs 100 crores, the industry may be said to have attained stability. One can look forward to our producing a million tonnes of basic plastics in another decade. It would be disappointing if this progress has to be achieved only with borrowed technology. Our manufacturers of petrochemicals, copolymers and plastics should come together and set up an organisation, if possible in association with producers of other petrochemicals, to conduct research on the problems that the industry will have to face in the next decade.

Eastern Economist 20 Years Ago

OCTOBER 31, 1947

The accession of Kashmir is a matter which is in a sense still sub-judice since the Inter-Dominion Conference will consider it on Saturday. In the meantime, Pakistan Army Headquarters have put out a statement denying the use of Pakistan troops in Kashmir. The main item on the agenda at Saturday's Conference will be to test the truth of this statement, and to get a clear and unambiguous answer to the Indian Dominion's suggestion, first made on the 28th of October, that Pakistan's territory should be closed to the raiders. Meanwhile about three hundred and twenty-five British nationals who were in Kashmir when trouble began have now been more or less completely evacuated. What accounts of the developments in Kashmir they will carry, and how far the international press will distort these events, remains to be seen. But a mere chronicle of the major developments in the past few days shows the seriousness of the trouble.

Will Gold Ever be Demonetised?

PAUL EINZIG

THE CONFIRMATION of the London understanding about the creation of Supplementary Drawing Rights at the Rio de Janeiro meeting of the IMF has revived speculation about the future of gold. Once more there is much pseudo-scholarly talk about the possibility that sooner or later the system to be established when the plan is activated will replace the system based on gold. It is argued to boredom that it will be ever so much more convenient to ensure the expansion of the volume of international liquid resources in accordance with the expansion of requirements than to let it depend on the caprices of the gold output—that is, what is left over from the gold output after private demand is satisfied.

These arguments sound only too familiar to those who remember the pronouncements of Keynes and McKenna—not to mention the host of currency cranks such as the agitators for social credit—some 45 years ago. We were told that gold was a barbarous relic which ought to be abolished. We were told that sooner or later its value would decline to that of scrap iron. Although during the last three decades the price of scrap iron has increased considerably while that of gold has been kept down at \$35 an ounce, even now a great many ounces of the former can be bought for an ounce of the latter.

The world witnessed many crises since the early 'twenties when forecasts of the eventual doom of gold first became fashionable, and on each occasion the public instinctively played for safety by buying gold. There was only one noteworthy gold scare—in 1937 when for reasons of monetary policy the United States authorities allowed rumours to circulate about their alleged intention to reduce the official buying price of gold fixed at \$35 in 1934. Thirty years have passed since that experience. Ever since the realisation that the US authorities had not the least intention to reduce the price of gold that metal has been trusted implicitly everywhere. It is now realised by all but a few freaks that if and when the dollar price of gold should change it would be in an upward direction and not in a downward direction.

Market Unimpressed

The confirmation of the London agreement on Supplementary Drawing Rights did not impress the gold market as it appeared to have impressed some other quarters. So, far from causing a fall in the price of gold, buying pressure in the London bullion market brought it up to \$35.19½, which is the highest price to which it can rise so long as the Central Banks' Gold Pool remains in operation.

It does not look as if hoarders and speculators were afraid of the competition of Supplementary Drawing Rights with gold. This is not at all surprising. For one thing, the creation of Supplementary Drawing Rights is far from being an accomplished fact. The Rio agreement is yet to be ratified by the governments and parliaments of the countries concerned, after which an 85 per cent majority will have to be obtained for its "activation". Judging by French official pronouncements since the Rio meeting, General de Gaulle and his advisors seem to feel that France has gone too far towards meeting the expansionist school and she will be reluctant to take the next step unless her various demands concerning the constitution of the IMF are accepted.

In any case, the amount involved in the present scheme is a bare fraction of the world's monetary gold. Judging by the rate at which requirements of liquid reserve increase as a result of expansion in international trade and finance plus the rise in prices, the addition of Supplementary Drawing Rights under the present plan would merely meet additional requirements that are expected to arise during the next three years. So there can be no question of replacing gold by the new "currency".

All that has happened to the detriment of gold is that

pressure in favour of an increase in the official American buying price of gold has declined somewhat. Those who have been agitating for such increase on the ground of the alleged inadequacy of the world's liquid reserves on the basis of the present price may now be more willing to wait and see how the new device would remedy the situation. Some of them continue, nevertheless, their agitation in favour of a higher price of gold. Foremost among them is M. Rueff who is as firm as ever in his demand for doubling the price of gold.

It remains to be seen if the new device will prove to be workable even on the modest scale of its application under the Rio agreement. Quite possible its misuse will discredit it, so that the conservative quarters in the IMF will not consent to a further increase in its amount. Quite conceivably disagreement between the principal partners about the operation of the system will give rise to reasonable fears that Supplementary Drawing Rights might not be accepted by opponents of expansionism in payment for their surpluses.

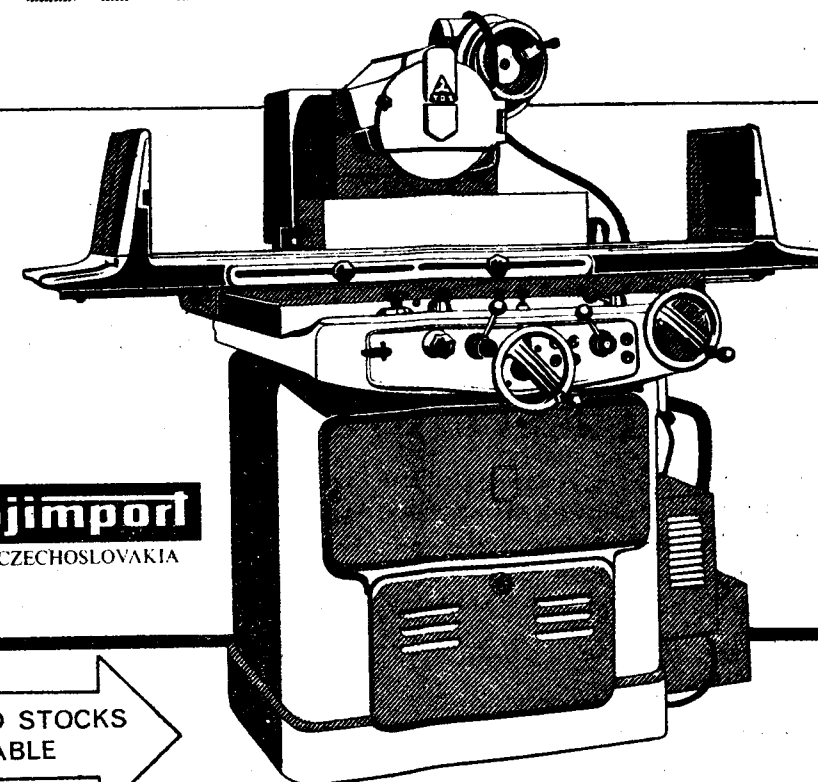
Meanwhile whenever there is some financial, economic or political trouble of a disturbing character, the public is certain to continue to ignore the anti-gold school and will hasten to buy gold. This is the basic fact of the situation. Economists and politicians can do nothing about it. Human nature is stronger than their arguments.

Originally the Supplementary Drawing Rights were intended to serve as a contingency reserve which would be available in major emergencies. Instead, the plan has been adopted for the purpose of supplementing existing international liquid reserves and meeting the normal expansion of requirements. But the danger of a major emergency is still there. Should it arise, a devaluation of the major currencies will still remain the only effective device. It would come into force under the inexorable pressure of the destructive forces which are bound to become stronger thanks to the creation of Supplementary Drawing Rights as a result of which the balancing of the inverted pyramid of the international monetary system will become even more precarious than it is at present.



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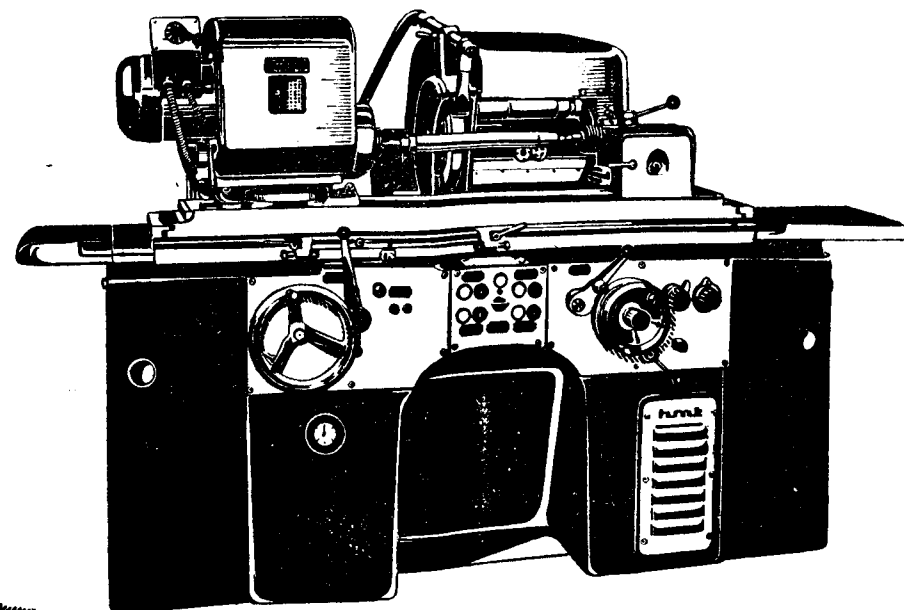
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National Protein Policy

R. O. WHYTE

IN HER broadcast to the nation on re-election to the office as Prime Minister on March 15, 1967, Mrs. Indira Gandhi stated, among other things, that "although we are immediately confronted with a critical shortage of foodgrains, I do not believe that we can afford to ignore the long-term and equally basic problem of malnutrition which affects the health, physique and stamina of the mass of our people. Here again, I think it is necessary and possible to draw up a forward-looking charter under Article 47 of the Constitution to improve the nutritional standards of the people."

Article 47 reads as follows:

"The state shall regard the raising of the level of nutrition and the standard of living of its people and the improvement of public health as among its primary duties....."

Action has also been recommended in the international field, the UN Advisory Committee on Application of Science and Technology to Development having asked the Economic and Social Council of the United Nations to consider at its 1967 meeting some 14 proposals designed to reduce the gap between demand and supply of proteinaceous foods, and between the nutritional requirements and actual consumption of protein by the greater part of the population of developing countries. Increased production of protein from conventional plant and animal sources has been suggested. All governments are asked to revise their food policies accordingly. What does this mean to India?

In order to draft a charter for the elimination of malnutrition on a national scale, it would be necessary for the Indian Council of Medical Research and other organizations, both national and international, first to define what in the context of India is meant by hunger, starvation, malnutrition and famine, in economic terms that may be generally understood and appreciated. "A famine does not imply a complete absence of food, with the rich running away and the poor starving. It is a condition of scarcity in which prices, left to themselves, rise to a point which the poor cannot pay. Then they die, more or less slowly, from malnutrition or from the diseases that commonly forestall complete starvation." (Kingsley Martin).

Insidious Evil

The terms hunger, starvation and famine are usually applied primarily to shortage of the major foodgrains, which are needed to "fill the bellies" of peoples living on a subsistence diet or on low and unbalanced levels of nutrition. In the past, famine and starvation were recognizable because they could be measured in terms of human lives or readily visible forms of human suffering. Now they may be predicted and to some extent averted by national or international action. They become the subject of newspaper headlines and frequently of cynical political exploitation by parties that do not themselves have any better solution. Malnutrition, on the other hand, is much more widespread, insidious, but not so readily recognizable unless one has eyes trained to see and to interpret the evidence. Malnutrition is measured in non-sensational terms which do not make the headlines and do not provide fodder for politicians—general physical stature, wellbeing and energy of the people and particularly of the young; growth rates; capacity of women to rear children without seriously undermining their own health; deaths in infants under 12 months and of children from one to five years of age; resistance to disease.

Malnutrition is due above all to a deficiency or absence of the correct amount and type of protein in the human diet. "Perhaps the most important nutritional problem that is still not fully solved is that of meeting the protein requirements of man" (report of joint expert committee of WHO and FAO). Food subserves two major functions; to provide energy and to provide the factors essential for growth and for the replacement of body tissues lost in the wear and tear of life. All the

three forms of food—carbohydrate, fat and protein—provide energy, but it is only protein that can supply the nitrogen and amino-acids necessary for growth and replacement. The expert committee continued: "Protein nutrition in young children is the major nutritional problem of the world, and protein malnutrition, if both its direct and indirect effects are considered, is the major cause of ill health."

It is therefore obvious that protein should be given a major role in the policies and politics of India. In a political system that professes to be socialist, it is surely essential to survey and to define the present status of protein nutrition and malnutrition for the whole population, under the many and diverse conditions of the country, and to plan how the deficiencies which will certainly be revealed may be rectified.

Major Objective

In his address to a joint session of both Houses of the new Parliament on March 19, 1967, the President of India had stated that one of the four major objectives in the economic sphere was to end dependence on food assistance from abroad by the end of 1971. Many believe that this statement, which has been repeated in more exaggerated forms subsequently, is over-optimistic, in view of the facts that agricultural production throughout monsoon Asia is not increasing at anything approaching the necessary or planned rate, and that the population of India over the five-year period 1967-71 will have increased by some 75 million, or 15 per cent above the base year 1966, when domestic production of foodgrain was grossly inadequate.

But in the present context, it must be stressed that these objectives and claims for self-sufficiency relate primarily and possibly merely to foodgrains. Only to a limited extent can these be regarded as sources of protein and particularly of the critical amino-acids, lysine, methionine and theonine. There is obviously a difference in total protein content between rice and whole egg, but in the amino-acid make-up of the protein, i.e., the index of quality, the major difference is that egg protein contains about 7.25 per cent of lysine, whereas rice contains only 3.2 per cent. Similarly wheat protein contains 3.1 per cent of lysine and is very deficient in methionine. Both are lower in theonine.

It is unlikely that anyone has attempted to work out targets and production objectives with respect to the various forms of protein, and no one expects that self-sufficiency in these proteins, of the necessary quality and up to the stated nutritional requirements of the whole population, can possibly be attained from the land by the end of 1971. It is essential that this exercise be undertaken at once, by reviewing the current production and demand on the national and regional bases for all the varied types of protein, and by calculating to what extent and how soon the deficits may be met from increased domestic production. And are we to aim at selectivity, the production of limited amounts of costly products, particularly the various forms of animal protein, which can be afforded only by the upper income brackets, or universality, a basic ration of the correct types of protein for all, at a price that all can pay?

Only if India evolves a national protein policy based upon a well-considered plan of increased domestic production and improved distribution and utilization can the country honestly claim serious consideration in the evolution of that international system of production and distribution to which the Vice-President—Mr. V. V. Giri—referred in Maharashtra in July, 1967. No one has yet the slightest idea whether world resources of protein can be increased to meet the demands of a global rationing scheme. If this should not be possible, the present high-protein countries are unlikely to take kindly to nutritional sanctions involving reduction in their own protein level for

the benefit of the deficit countries which have not yet put their own protein houses in order.

It is essential to review the actual and potential contributions of various types and sources of proteins to a balanced diet in India. It should be possible for the specialists in crop and livestock production, fisheries and other disciplines to work out the ecology of protein types and production in the various agro-climatic regions of India. We need a parallel study by the specialists in human nutrition, on the ecology of the dietary preferences and of the acceptability and utilization of new and different forms of protein by people living in different socio-economic-climatic conditions, or undertaking different types of work. In some regions and under some economic conditions, milk may be the major source of protein; in others poultry, or fish and fish products, or sheep and goat meat, or a protein powder food additive made from oil refinery waste. Consideration must also be given to the possibility of setting up factories in India for the manufacture of methionine and lysine. The ingredients for the production of methionine can be obtained as by-products or intermediates from oil refineries and fertilizer plants; the form of lysine which is utilized by the body is best made by a fermentation process developed in Japan. It thus becomes a question of the best method of incorporating these easily transportable crystalline or powdery materials into food-grains. Also we await results from the amino-acid laboratory established by Rockefeller Foundation in New Delhi, March, 1967, in its programme on the optimal content and balance of the amino-acids in grain. Reports indicate already that it is possible to produce a mutant variety of wheat with a protein content five per cent higher than its parent, and a mutant strain of maize in which the lysine content is almost doubled.

Maximum Utilisation

Only by maximum development and economic utilization of all forms of protein, which must necessarily always be in overall short supply, can anything approaching a balanced diet for all Indians, rich or poor, urban or rural, industrial or agricultural, be evolved, under conditions of intense competition for limited land and water resources. A new approach to the design of agricultural and farming systems is called for, to consider maximum economic return per unit area of land, for example, through the use of fertilizers in systems of cereal or cash crop monoculture without a livestock production component.

The producer and processor of protein, plant, animal or synthetic, has not been given clear targets or objectives. No nutritional standards for various forms of protein in general, nor for specific animal proteins such as milk or eggs, individually or in combination, have yet been laid down by national or international authorities for the population of India. For milk alone, we have the generally accepted requirements provided by the Central Food Technological Research Institute, Mysore (Table I).

TABLE I
APPROXIMATE REQUIREMENTS OF DIFFERENT AGE GROUPS FOR ANIMAL PROTEIN AND CALCIUM

Age group	Optimal requirement in ounces per day
Infants	20 - 30
Pre-school children	16
School children	10
Adults	6
Expectant and nursing mothers	16

The precise requirement of individual forms of protein in the Indian diet cannot, of course, be considered in isolation, but only in relation to the other ingredients in that diet. One may speak in terms of figures for requirements of different nutrients such as protein, vitamins, etc. Protein needs may be met through a variety of foods of animal and vegetable origin

with a wide range in overall protein content, and in the percentage amino-acid composition of the proteins. Assuming that an average diet may contain a relatively judicious mixture of vegetable foods that supply proteins of fair quality, it is stated that the level of milk intake may be reduced to six ounces (0.17 litre) per head per day, calling for a national production target of 85 million litres per day. But what if in a particular area there are good supplies also of poultry and fish products, by how much will these sources reduce the requirement for milk? This we do not know, and this is one of the factors which must be considered in evolving a rational protein policy on a regional and national scale.

Some forms of protein from crops of wild plants are used: (a) primarily for direct human consumption; some may be used equally well (b) for direct consumption by human beings, or for domestic livestock for relatively inefficient conversion into various forms of animal protein for humans; while some (c) are unusable or unacceptable as human food and are best converted first into animal protein by domestic livestock for consumption by human beings. The competition for resources between food production for direct consumption by man and food production by domestic livestock for indirect use by man is very intense in India, and the intensity is increasing with progressive increase of human and livestock pressures per unit area of cultivated land. The situation will become more and more difficult for the livestock industries that come under (b) above (primarily dairy and poultry). It then becomes increasingly necessary to develop economic livestock production of type (c) to the full—primarily sheep and goat production, on uncultivable land below the rainfall threshold for economic foodgrain production.

The main sources are the foodgrains with the higher protein contents, the grain legumes or pulses, and leaf protein.

Forward-Looking Policy

A forward-looking protein policy should favour the increased production and use of wheat (protein content of grain=10-14 per cent), as compared with unhusked rice (7.5-8 per cent), by increase in area (present 33 million acres producing 11 million tons), or of yields by the use of improved high-yielding varieties and of fertilizers and measures for disease, pest and weed control, to give an increase of five million tons by intensification of production.

Pulses and millets (these protein and carbohydrate crops are usually considered together in India) together occupy about 145 million acres, or 30 million acres more than the combined acreage of rice and wheat. Yet because of the low yields of these crops, which are generally grown on the less productive soils without irrigation, they contribute hardly one-third of the total foodgrain production, although they occupy almost half the area under foodgrain crops.

An increase of about 30 per cent is expected from the pulse crops alone in the fourth Plan period (estimated increase of three million tonnes, later revised to four million tonnes) mainly through increasing the yields per acre (see Table II). Although not regarded as a major pulse, the cowpea will also be the subject of intensified production; it is a quickgrowing legume, used for vegetable, grain, fodder and green manure, grown alone or in mixtures in several parts of India (Kerala, West Bengal, Maharashtra, Madras, Punjab and Assam).

An important contribution to increased production from pulse crops may be expected from the Regional Pulse Improvement Project, initiated (Memorandum of Understanding signed April 1965) by the Agricultural Research Service of the US Department of Agriculture (USAID) in co-operation with Indian Council of Agricultural Research, Indian Agricultural Research Institute and the departments of Agriculture in the co-operating states. Work has begun on varietal improvement, pests and diseases, and soil and crop management.

Every year there is all over India a great loss of plant protein outside the cultivated areas. Over most of the country, for example, the grasses in the natural vegetation by the end of

August achieve for a couple of weeks a crude protein content of some eight to nine per cent on average dry matter yields of, say, half a tonne per acre.

TABLE II
PULSE CROPS: PRODUCTION NOW AND EXPECTED IN LAST YEAR OF FOURTH PLAN

Crop	Area (million acres)	Present production (million tonnes)	Production expected in last year of fourth Plan (million tonnes)
Bengal gram	25.0	5.00	6.70
Tur	6.1	1.70	2.20
Green gram	3.3	0.31	0.40
Black gram	3.9	0.46	0.60
Horse gram	3.9	0.38	0.49
Moth	3.3	0.22	0.28
Peas	2.9	1.03	1.38
Lentils	2.0	0.35	0.45

The great majority of this is not harvested either as wild grasshay or by grazing livestock. By the end of October or November, the protein content falls to less than three per cent. It is to harvest this lost five per cent that N.W. Pirie's village model of protein extractor should be given more serious consideration, in spite of the fact that it is extremely difficult to have a sufficient number of units to cover such vast and scattered areas over the two or three weeks when the protein content is at its maximum. Perhaps this technique may be more applicable to a "crop" such as the water hyacinth, which is available over a longer period.

Milk is the form of animal protein most acceptable to the Indian people, if it could be made available throughout the country in sufficient quantity and at a reasonable price. The official claim, namely, that sufficient milk is produced to give every person 4.97 ounces of milk (and milk products) or five grammes of animal protein from milk per day does not bear detailed examination and is only for prestige presentation at international conferences. The milk production situation has been thoroughly reviewed in 'The Planning of Milk Production in India' (Whyte and Mathur, Orient Longmans, 1967). It may best be summarised by Table III, showing what would be needed to provide six ounces per head of total population (480 million) or 80 million litres per day from an actual cow and buffalo population giving 250 and 500 litres per lactation, instead of an ideal (and possible) one (if we could have culling of unproductive runts by slaughter) giving 2,000 litres per lactation. Anyone with experience of bovine husbandry in India will at once see how unattainable these objectives are.

If it were possible to assume uniform rates of production

TABLE III
PRODUCTIVE BOVINE POPULATIONS, THEIR FEED REQUIREMENTS, TO MEET THE ALL-INDIA TARGET OF SIX OUNCES MILK PER HEAD PER DAY OR 80m. LITRES AT 1965 POPULATION.

Total milk production in litres per day	Performance of the milch animals in litres per lactation	Productive bovine population			Green fodder		Dry fodder		
		In milk	Total productive bovines (in thousands)	Concentrate in thousand tons	Thousand tons	Thousand acres	Thousand tons	Thousand acres when one crop is taken per year	Thousand acres when two crops are taken per year
80,000,000	250	128,000	512,000	166,400	1,536,000	153,600	1,536,000	1,024,000	512,000
	500	64,000	256,000	89,600	896,000	89,600	793,000	529,040	264,520
	1,000	32,000	128,000	51,200	512,000	51,200	409,600	273,040	136,520
	1,500	21,360	85,360	42,640	362,560	36,256	277,280	184,880	92,440
	2,000	16,000	64,000	38,400	288,000	28,800	211,200	140,800	70,400
	2,500	12,800	51,200	33,280	230,400	23,040	168,960	112,640	56,320

and consumption of eggs throughout India, one could talk theoretically of providing 6, 12 and 25 eggs per person per year in 1961, 1966 and 1971. But we must consider variable farming standards and differential purchasing powers, and what quantities of egg protein are likely to be significant in meeting even minimal demands for animal protein. Degrees of acceptability in the diet, and the availability of complementary amounts of animal protein from milk must also be considered.

The population of India is not so strictly vegetarian that a good proportion would not eat sheep and goat meat if it were available and they could afford it. But these branches of livestock husbandry are at an economic impasse. The present types and breeds of these animals cannot be improved until their fodder basis is greatly improved. This cannot be done until the flocks can be kept in land units of appropriate size in which number and type of animals can be geared to the grassland and fodder resources, actual and potential. The present system of migration of flocks and shepherds half way across India in intense competition with vast herds of cattle and over unproductive land that does not belong to the flock owners and for the improvement of which they will not accept any responsibility, is as antiquated as Mohenjo-daro and Harappa.

Fish Meal

Space prevents even a cursory review of sea and freshwater fisheries as a very important source of animal protein. There are also the high-protein fish meals being produced in the USA for the low-protein developing countries, a meal which has now been made palatable and free from nutritive risk, and which will presumably be used to fortify the flour of food-grains. Last but by no means least is the new possibility of manufacturing high quality and palatable protein from organic waste matter in general by the use of unicellular organisms and bacteria, or from the effluent of oil refineries involving the action of yeast on the waste hydrocarbons.

The present position is one of too little of each individual item in a wide range of potential protein sources, dispersal of responsibilities for research, advice and action over many branches of government, and competition for resources of money, men and facilities between these different branches. This is primarily because of the inheritance of an old system of administration of land resources (into departments of agriculture, animal husbandry, forestry, soil conservation, irrigation, dairy development and so on) from the British days, and from which India seems to be unable to break away.

When there is too little of every item of protein, and when all types of production are faced by an acute and increasing intensity of competition with foodgrain crops for direct human consumption and cash crops for export, intelligent and co-ordinated development and use are the only methods that can be adopted. We need an objective statement of the relative merits of different sources and types of protein, plant, animal

and others. Then it must be decided, without lobbying by vested interests, public or private, the relative rates at which each type of production may be developed, and deserves to be given adequate financial support.

The role of different types of protein in representative diets of the common people must also be considered in relation to availability, economics of production and distribution of proteins, dietary preferences and purchasing power. Shall we leave it to the housewife to ensure correct use of vegetable and animal proteins in balanced feeding (with intelligent guidance at village level), or provide correctly balanced foods to avoid wasteful use of scarce proteins, or arrange to fortify certain cereal flours and meals with the correct quantities of protein meals of varying origin and type, again according to availability, consumer preference and nutritive value?

From all this would arise a new and modern land-use pattern for India, based primarily and in the first place upon

livestock rather than food and cash crop production. This would involve a new study and interpretation of the ecological requirements and of the geographical and economic place of the different types of animal husbandry (dairy bovine, poultry, sheep and goats), all industries which the excellent Indian farmers could develop to a high standard of efficiency if given half a chance by the administrative and technical pundits.

So, let us realize that the war for more food and better nutrition is on; let us have a national protein policy, drafted and executed by a competent, independent, technical, interdisciplinary secretariat at central and state levels, single-minded with regard to protein in human and livestock diets, and supported by equally dedicated protein-pushing commandoes to work at the field level, in association with existing associations such as the Applied Nutrition Programme of the UNICEF and the FAO.

Per Capita Income as Index of Development

Dr HIRA SINGH

PER CAPITA income of a country may not indicate economic progress even though national income and welfare may be increasing. Besides other factors, it depends on how the national income is calculated. Output per unit of input which may be an acre, a plough, or a man is the main criterion to determine the rate of growth. If the unit of observation is the income per man, it leaves behind the question whether the production curves were operating on an increasing, constant, or decreasing return to scale. For, per capita income depends not only on the rate of economic growth but also on the rate of population growth.

There are countries where the Malthusian theory of population and economic growth did not apply in the strict sense of the word. In such cases we have to look to the cultural pattern for the answer. The fertility rate has been high in those countries (i) where behaviour is of a highly traditional nature, (ii) where there is little experimenting with mores and taboos, (iii) where traditionally marriage takes place at an early age, (iv) where fertility in women is highly regarded, (v) where women's position is inferior to men's.

However, per capita income as an index to economic growth has been widely used. The reports of the United Nations on economic development of underdeveloped countries frequently show this unit of measurement. Writers, such as Viner, question the validity of per capita income as the unit of measurement of economic growth, but are not as explicit on the question as Professor Frankel who views per capita income neither as a goal nor a criterion of economic development.

It is universally accepted that at the initial stages of economic development, as the average income of the people grows the rate of population also grows. But in the advanced stages of economic development this ratio does not hold good.

As the per capita income increases and the skill of people increases too, the per capita income-raising forces are not in motion. On the other hand, in a densely populated country additions to labour force set in motion forces leading to diminishing returns which depress per capita income. A developing economy struggles between the two opposite poles—"the per capita income-raising forces and the per capita income-depressing forces; the income-raising forces are generated by the previous level of per capita income and the strength of the income-depressing forces is determined by the level to which per capita income would have been raised had the income-raising forces been the only forces in operation.

Economic development specifically connotes the widening of the range of alternatives open to people as consumers and producers. As the new opportunities open up, the range of

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alternatives increases and the scope of the market extends. And consequently the finer division of labour takes place. The specialization curves are likely to have a U-shape; with the increasing division of labour and internal economies of the market, the cost per unit of output at first decreases up to a certain point before it rises due to the diseconomies of scale and diminishing returns.

Lowest Per Capita Income

We have finally decided to use per capita income as a measure of economic growth. Our per capita income is among the lowest in underdeveloped countries. It is in fashion to blame the British for part of our problems, and probably rightly so. For a century and a quarter from the 1820's to the Indian Independence Act of 1947, we did not shape our own economic destiny. Rather, that destiny was shaped for us by the British rulers. This is the cardinal factor in our economic evolution since the early years of the 19th century. As a result we were poorer in 1900 than in 1850, and per capita income levels of living declined throughout the second half of the 19th century.

William Digby, the most controversial figure of his time, took the bull by the horns when he in a master stroke of statistical polemic had printed in gold on the spine of his magnum opus 'Prosperous British India' (1901), the following average per capita income in the provinces of British India: 1850—2d; 1880—1½d; 1900—½d.

The question is how to increase per capita income of the people of a country where unemployment, under-employment or disguised unemployment are a persistent phenomenon. According to Nurkse, disguised unemployment implies a hidden potential for saving. He believes that if the unemployed and the under-employed in agriculture are transferred to industry, it will have the following effects. Since these surplus people are not adding to the agricultural production, their removal will not cause any decline in production. Moreover, a great saving equal to the amount of their consumption can be made. This saving can be used for capital formation in agriculture as well as in industry. Surplus labour siphoned off from agriculture to industry will become a potential source of capital formation. For the labour power which is being wasted in

agriculture can thus be utilized in industry. This notion has caught the attention of many theoreticians and planners. It has been equally criticized by pragmatic observers.

Let us analyze this view in detail. It is true that "agricultural production could be maintained with about 55-75 per cent of the number of workers now engaged in it. In other words, on certain assumptions, one-fourth to one-third of the existing labour force in agriculture may be surplus to its requirement. Granted that we may have surplus labour of 25 to 35 per cent of our total agricultural labour. This labour is potentially unskilled and is not prepared to take up any work in industry without vocational training. Secondly, this labour may not be attracted from agriculture to industry without offering it high wages. These men may have attachment with their families, farms, villages, friends and may have certain preference for country life. In a non-industrial country, agriculture acts as a social insurance. Moreover, it is logical to conceive that farmers who are left on the farms may be underfed and may like to increase their consumption. The surplus labour thus siphoned off to industry will undoubtedly increase its consumption by the amount of increase in its income. Increase in the consumption of food may encourage imports of foodgrains and thus increase government's foreign exchange difficulties. The saving of the nation allotted for capital investment may have to be spent on consumption. We are not contesting the concept of mobilizing surplus labour. It is logically valid, but the practical realization of the concept is not so easy.

The balanced growth theory of Nurkse has also been criticized on theoretical grounds. It is claimed that the economic development seems to feed on disequilibria and to follow a path along a chain of disequilibria rather than that along a chain of equilibria as is usually assumed in modern dynamic models of growth. The strategy of economic development is, therefore, to choose those investments from among the many available that will generate the required type of pressures and sequences of development.

Conflicting Problems

Among all the theorists of economic growth on underdeveloped countries, Arthur Lewis (in his "Theory of Economic Growth", London, 1955) comes much closer to seeing the conflicting problems involved in the economic development of these countries. He states that

"in a closed economy it would be one of the conditions for economic growth that agricultural productivity should be rising rapidly. For, if productivity were not increasing faster than demand, agriculture would not be releasing the labour which was needed for expanding other industries, and the expansion of those industries would also be held up by the steady movement of the terms of trade against them (i.e. food prices would be rising relatively to all others)...In addition, if agricultural productivity is rising fast enough, the savings of the farmers, forced or voluntary, may become available to finance investment in other sectors of the economy."

According to Lewis, agriculture must be a prosperous industry for a healthy development of the economy. For if the terms of trade are in favour of agriculture, food prices will be rising in relation to other goods. Naturally the factors of production will be drawn to agriculture from other sectors. This will impede the movement of labour from agriculture to industry.

In order to attract labour from agriculture, industrial base must be developed. This requires that consumption must be cut to the minimum. The need for utmost restraints on the growth of non-developmental expenditure, whether at the centre or in the states, can hardly be over-emphasized. There is need for greater savings for investment purpose in industries. Agriculture is not only a source of labour but also a potential source of savings. For this purpose reform and reorganization

of agricultural industry is essential. Recent income theories indicate that equality rather than disparity in incomes gives a greater stimulant to save. Measures should be taken to expand training facilities all round and to eliminate exploitative credit and marketing arrangements. The problem, briefly, is not merely one of reducing existing inequalities, it is the positive one of creating conditions in which great disparities in income will not develop. From this point of view organizational changes, such as reform of land tenures, reorganization of land management, the encouragement of decentralized modes of production are of vital importance.

It is difficult to say with some measure of accuracy whether our per capita income over, say, a hundred years has been increasing or not. There were few statistical studies made to assess the national income. The methodology employed in each study differed from the other. Most studies were based on current prices and were related to a particular year. It is, therefore, difficult even to compare the results of each. Even if price adjustments were made, the static nature of the studies does not permit that any conclusions could be drawn to assess the long-term trend of per capita income. Table I presents estimates of our national income between 1867-68 and 1954-55. The table also shows the share of agriculture in national income. It could be said that agriculture made up roughly 50 per cent of the national income.

TABLE I
PAST ESTIMATES OF NATIONAL INCOME IN INDIA

Estimated by	Year	Total income bil.	Per capita income	Agricultural output as % of Total
		Rs	Rs	
1. Dadabhai Naoroji	1867-68	3.4	20	77
2. Baring and Barbour	1882	5.5	27	67
3. Curzon	1897-98	6.8	30	67
4. W. Digby	1899	4.1	18	64
5. Fred J. Atkinson	1875	5.7	27	55
	1895	8.8	35	57
6. Sir B. N. Sarma	1911	—	50	—
7. Wadia and Joshi	1913-14	—	44	—
8. Vakil and Muranjan	1910-14	—	59	—
9. Finlay Shirras	1921	—	107	—
10. Shah and Khambhata	1921-22	23.6	74	89
11. V.K.R.V. Rao	1925-29	—	76	—
	1931-32	16.8	62	53
12. R. C. Desai	1931-32	28.1	82.5	62
13. C.S.O.	1948-49	86.7	247	49
	1954-55	99.1	262	46

Note: The above figures are for British India except items 8 and 12, which are for whole of India and item 13 which is for the Republic of India.

Source: The 'Indian Economic Journal', Vol. V, July 1967, p. 237.

Nothing of much importance could be said in regard to the long-run trend of per capita income. Shah and Khambhata in their "Wealth and Taxation Capacity of India" (Bombay 1924) attempted to compare their estimates of per capita income of Rs 74 for 1921-22 to the previous estimates. All they could do was to state: "These figures somewhat agree with Rs 21 for 1871 (Dadabhai Naoroji), Rs 27 for 1882 (Baring and Barbour), and Rs 30 for 1901 (Lord Curzon). But they do not agree with Rs 18 for 1898 or Rs 17 for about 1900 (Digby), Rs 50 for 1911 (Finlay Shirras), Rs 86 for about 1914 (B. N. Sarma), or Rs 46 for 1921 (Professor Shah)".

Later S. J. Patel made estimates of national income of India from 1896 to 1960. His data were largely drawn from

George Blyn's* study which is being widely used for reference in this country. Patel's estimates of national income and per capita income are based on annual averages in 1952-53 prices. In drawing the index numbers, he uses 1896-1965 as 100. The conclusions are fairly reliable and indicate the long-run trend of national and per capita income. Table II shows national and per capita income of 1896 through 1960 with index numbers. The table shows an increasing trend of agricultural crops. It was Rs 34.8 billion in 1896-1905 and increased to Rs 41.2 billion in 1946-55. This shows an increase of 15.51 per cent over 1896-1905 output. Per capita income shows no such rising tendency. It was Rs 325 in 1896-1905 and increased to Rs 340 in 1916-25 and then declined to a low ebb of Rs 280 in 1946-55.

The same tendency is observed in the table even with index numbers (assuming 1896-1905=100). The per capita income dropped to 86 in 1946-55. One thing becomes clear. Even though agricultural output is rising, per capita income is falling. In an agrarian economy such as ours where about 70 per cent population depends on land, a rise in agricultural output is consumed by a more than proportionate rise in population. Since the industrial base is not developed enough, industrial output does not make substantial contribution to national income. The rising population, therefore, has no alternative but to fall back on agriculture. Even though agricultural output keeps rising, it fails to keep pace with the rate of population growth. This reflects in lowering per capita income.

After independence when a policy of rapid industrialization and agricultural development through our five-year plans was initiated the tendency has reversed. Table III presents national and per capita income at 1948-49 prices.

Figured at 1948-49 prices, both the national income and the per capita income have been rising, with a minor drop in 1957-58.

This justifies Lewis' thesis as discussed previously that if the agricultural productivity rises rapidly, it can release resources, both human and material, which can be used to build industrial base in the country. But the whole scheme requires wise use of agricultural credit. If the credit is used productively on a long-term as well as short-term basis, it will not only increase agricultural productivity but will release re-

sources engaged in agriculture for industrial uses. Per capita income thus will rise with the rise in both industrial and agricultural output.

Index numbers of agricultural production show that although the production of foodgrains and other crops is rising, the rise is discontinuous. It is difficult to expect a continuous increase in agriculture where uncertainties permeate the whole structure and nature plays a large part in determining the outcome of human efforts.

It is estimated that about 70 per cent of our population depends on agriculture which is our main industry and employs greater proportion of resources than any other industry. If we view the national income by occupational categories, we will also find that it is agriculture which contributes greater proportion of national income than any other sector.

Ours is still largely an agrarian economy. To transform it into an industrial economy, it is necessary that other sectors of

TABLE III
NATIONAL AND PER CAPITA INCOME
(1948-49 as base)

Year	National Income (in crores of rupees)		Per Capita Income (in rupees)	
	At current prices	At 1948-49 prices	At current prices	At 1948-49 prices
1948-49	8,650	8,650	249.6	249.6
1950-51	9,530	8,850	266.5	247.5
1955-56	9,980	10,480	255.0	267.8
1956-57	11,316	11,000	283.4	275.6
1957-58	11,390	10,890	279.6	267.4
1958-59	12,600	11,650	303.0	280.2
1959-60	12,940	11,850	304.7	279.0
1960-61				
Preliminary	14,200	12,690	327.3	292.5

Source: 'India', 1962, Publications Division, compiled by the Research and Reference Division of the Ministry of Information and Broadcasting.

TABLE II
ESTIMATES OF LONG-TERM CHANGES IN NET INCOME AND PER CAPITA INCOME: 1896-1960.
(Annual averages in 1952-53)

	1896 to 1905	1906 to 1915	1916 to 1925	1926 to 1935	1936 to 1945	1946 to 1955	1960 Plan
Billions of Rupees							
Net Commodity Output							
1. Agricultural crops	34.8	36.8	37.8	38.4	39.1	41.2	52.0
2. Other agriculture	6.7	7.1	7.2	7.4	7.5	7.9	9.7
3. Factories and mines	1.6	2.3	3.0	4.0	6.3	7.3	15.3
4. Small enterprises	8.3	8.8	9.0	9.7	9.3	9.8	10.8
Total above	51.4	55.0	57.0	59.5	62.2	66.2	87.8
Service Income							
5. Commerce, transport etc.	10.8	12.2	13.2	14.8	16.7	18.5	23.0
6. Other services	12.1	12.9	13.4	13.9	14.9	15.8	21.0
Total above	22.9	25.1	26.6	28.9	31.6	34.3	44.0
7. Net Domestic Product	75.0	81.0	84.0	88.0	94.0	101.0	135.0
Rupees							
8. Per capita income	325	330	340	320	300	280	330
Index Numbers: 1896-1905=100							
9. Commodity output	100	107	111	115	121	129	171
10. Services	100	110	116	125	138	150	192
11. Total domestic product	100	108	112	117	125	135	180
12. Per capita income	100	101	105	98	92	86	101

Source: "Changes in Output and Income", by S. J. Patel in the 'Indian Economic Journal', Vol. V, July 1957, p. 246.

* Blyn, George, 'The Agricultural Crops of India', 1893-94 to 1945-46: A Statistical Study of Output and Trends. (Unpublished manuscript, South Asia Regional Studies Department, University of Pennsylvania, 1951).

the economy develop enough to contribute to national income a larger share than agriculture does. But as Lewis indicated, in the initial stages agriculture must become a prosperous industry so that it can release resources to be used in industry. This situation can be brought about only when agricultural finance is correlated to productive enterprises in agricul-

The Same Old Problems

A Correspondent

THE MEETING of the "77", which concluded recently at Algiers, was a kind of dress rehearsal by the developing nations for an effective confrontation with the advanced countries at the second UNCTAD to be held in New Delhi early next year. At the outset it ran into difficulties over the participation of the South Vietnamese and South Korean delegations in the conference but soon it steered clear of controversy and addressed itself to the main task which was to secure implementation by the advanced countries of the recommendations of the first UNCTAD. In the main, these are: (a) stabilisation of the prices of primary commodities exported by the developing countries, (b) improved access to their products (including manufactured and semi-manufactured goods) in the markets of the developed countries, (c) augmenting the flow of aid to them on easier terms, (d) lessening of their debt-servicing burden, and (e) supplementary financing to compensate them for shortfalls in exports due to unforeseen factors.

Although three years have passed since these recommendations were accepted by the advanced countries, by and large they have not been implemented. Tariff and non-tariff barriers to imports from the developing countries exist in most of these countries. Commodity agreements which are meant to protect the interests of the developing countries have not been concluded even in respect of those primary products on which there was unanimity at the first UNCTAD. The volume of aid is declining. It would afford the poorer countries some consolation if they are compensated for the decline in aid by a softening of its terms. Even this has not happened and they are faced with a debt-servicing problem of a huge magnitude. As their debt repayments keep mounting, an increasing proportion of their export earnings is used in meeting this obligation.

Widening Gap

The irony of the situation is that many advanced countries realise that it would not be in their interests to allow any further widening of the gap between the "have" and the "have-not" nations. They have supported unequivocally resolutions of the GATT and other international organisations aimed at reducing the disparities in the living standards of the peoples of the world. Yet, a kind of cynical indifference to the needs and aspirations of the developing countries prevails among them. This is something inexplicable. Even so it should be possible to spur them into action if the developing countries can act in concert and work out a common strategy for securing implementation of the recommendations of the first UNCTAD.

It seems that the assembly of the developing nations at Algiers was taken note of seriously by them. Recent reports from Europe speak of a wide ranging scheme of tariff preferences to the developing countries being in the offing. It is known that officials of the UK, the USA, France and W. Germany have drawn up such a scheme and if it is accepted by the governments of the countries concerned, it is certain that it will be put forward at the second UNCTAD at New Delhi as a joint initiative by the western countries to help the developing nations out of their trading problems. Only a broad outline of the scheme is available. In the main, it provides for preferences for 10 years initially. These may result in substantially lower tariff for certain export goods from the developing countries and possibly the duty-free entry of a few select items. No reciprocal benefits are likely to be sought by the western countries. If it goes through, it will be the most tangible result to emerge from the UNCTAD.

If the agricultural industry creates a surplus and consequently the prices of food shift to relatively lower levels than industrial goods, the industries will increase demand for raw materials and labour from agriculture. Thus, the total economy will grow and the national and per capita income grow faster than the rate of population growth.

Divisive Tendencies

For instance, those countries which lean heavily on the export of a few primary commodities—some have hardly one or two to speak of—are inclined to lay greater emphasis on the solution of the problems affecting the primary commodities than on securing increased access to manufactured and semi-manufactured products in the markets of the well-to-do countries. There are some countries, especially in Africa, which would like special measures to be taken in favour of the trade of the least developed among the developing nations. It is true that there are areas which need special assistance, but an undue emphasis on this aspect might encourage divisive tendencies among the developing countries. Besides, it would be administratively difficult to operate a scheme of trade concessions to developing countries based on the degree of their economic development.

Some of the smaller developing countries believe that the solution to their problems lies in forming regional and sub-regional groups rather than in any scheme of trade expansion and economic co-operation on a global basis. Such regional arrangements may bring some immediate benefits to the participants, but in the long run it would be in their interest to fit these into an overall plan for multilateral trade, in which all developing countries can take part.

There is also a tendency among some developing countries to enter into exclusive preferential arrangements with groups of developed countries. The agreement between the European Economic Community and the Associated African States is a case in point. As a result of these arrangements, the goods of other developing countries are discriminated against in the markets of the advanced countries concerned. Conversely, the goods of the advanced countries get preferential treatment in the markets of the developing countries which take part in these arrangements. All this will impede the evolution of a global trading policy.

At the first UNCTAD, it was agreed that exclusive preferential arrangements between the developing and the advanced countries should be done away with once a scheme of non-discriminatory generalised preferences by developed countries in favour of the less-developed is implemented. India has agreed to forgo her Commonwealth preferences when such a scheme comes into force. Similarly, other countries should be prepared to deny themselves the advantages they have been deriving from preferential arrangements in the interests of the developing world as a whole.

The task of evolving a unified action programme might prove difficult, but the developing countries must realise that unless they show a spirit of accommodation and are willing to make sacrifices, their hopes of securing some gains for their trade with the advanced countries will remain unfulfilled.

FROM THE CAPITAL'S CUPBOARD

Are Procurement Prices High?

THE MINISTRY of Finance has suggested to the Food and Agriculture Ministry that there should be no central procurement in those states which do not conform to the centre's directives on procurement prices. It has urged it to adopt this course as some of the surplus states are insisting on paying the producers higher prices than fixed by the centre. "This is the minimum challenge which the Department of Food has to accept in the interest of enforcing discipline in the matter of food policy", it says in its note to the latter. Even if central procurement in the recalcitrant states is done away with, the Finance Ministry feels confident that a million tonnes of rice could be procured. But this optimism is not shared by the Food Department. It does not expect more than 725,000 tonnes from the three surplus rice-producing states which have fallen in line with the centre's procurement price policy—Andhra Pradesh (400,000 tonnes), Orissa (200,000 tonnes) and Madras (125,000 tonnes).

The Finance Ministry favours the tough line as it feels that the procurement prices fixed by the Food Department (these represent a compromise between the lower prices recommended by the Agricultural Prices Commission and the higher prices demanded by the state chief ministers) are on the high side and these high procurement prices will prevent open market prices from going down, as they should, from the very high levels which they have reached after two years of drought. It has entered a caveat on the question of the new prices: "Artificially high procurement prices will thus create a situation in which there would be no hope of maintaining stability of the cost of living, and the opportunity for controlling inflation, provided by the good crop, would be lost".

The Finance Ministry has also set its face firmly against any increase in incentive bonus to the states for rice supplies to the central pool. It says: "The whole system of incentive bonus is repugnant to the evolution of a national food policy. The sooner it is discarded, the better. In the circumstances obtaining at present, however, it may be necessary to retain the system. But it would be totally wrong to liberalise it. Liberalisation of the bonus system would not only prompt other state governments to ask for incentive payments in respect of other commodities, but also encourage disintegration of interstate trade".

There are differences of opinion between the Finance Ministry and the Food Department over the quantity of foodgrains that can be imported during 1968. The latter does not think that a target of eight million tonnes is high since the USA has had an excellent wheat crop and the prices are consequently declining there. On the other hand, the Finance Ministry maintains that imports of this order are not feasible. First, the climate for food aid in the USA is not favourable. Second, foreign exchange stringency does not permit anything but marginal imports. It is recognised that some quantities of rice will have to be imported in any case and that it should be possible to import about 300,000 tonnes from traditional sources. The Finance Ministry has, however, urged that at the same time efforts should be made to export superior quality rice.

Meanwhile, the Finance Ministry which was strongly opposed to the continuance of subsidy in the case of milo has relented. While the sale of this coarse grain will continue to be subsidised to the same extent as at present, the subsidy on wheat will be totally withdrawn and that on rice reduced drastically.

PROVIDENT FUND INVESTMENTS

The Labour Ministry has at last won its battle with the Finance Ministry for changing the pattern of investment of the employees provident fund. These monies which are invested exclusively in central government securities (over Rs 618 crores had been invested till the beginning of this year) will hence-

forth be allowed to be invested in securities with a higher yield. Consequently the subscribers to the fund will get a much higher interest rate than was paid to them over the past many years.

The issue was clinched actually by the Law Ministry which held that "there is no obligation on the part of Central Board of Trustees (of the Employees Provident Fund) to invest monies in Central Government Securities". It said that it was open to the Board to deposit them in the State Bank of India or to invest them in state government securities.

Nothing but cussedness explains the resistance of the Finance Ministry over the past many years to changing the pattern of investment. In the first instance, it opposed any change on the tenuous plea that exclusive investment in central government securities was essential as these were taken into account in assessing the central resources for financing the five-year Plans. This precluded investment in state government securities, but how this came in the way of depositing the monies with the Reserve Bank or the State Bank of India, which would have fetched a higher rate of interest, is not clear.

Later when it was suggested to the Finance Ministry that the provident fund accumulations might be invested in the Unit Trust of India, it took the ludicrous stand that since the units were subject to price fluctuations, investment in them would not be prudent. This sounds ridiculous when the public has been told about the virtue of the Unit Trust scheme as the safest way of investment for the medium and small income groups (guaranteeing an assured return).

In April, 1965, the Finance Ministry was requested, at the instance of the central board of trustees, that the existing pattern of investment be changed as follows in order to earn a better return.

- (a) 10-year National Savings Certificates (issued in 1965) ... 50 per cent
 - (b) Other central government securities ... 50 per cent
- This too was not accepted by it on the ground that National Savings Certificates were intended mainly for attracting the savings of people in the small and medium income groups and that institutional investors such as the Employees Provident Fund should steer clear of it.

Finally, in sheer desperation the Labour Ministry approached the Finance Ministry for investment of the provident fund monies in the best yielding central government securities. It also requested the Finance Ministry not to be rigid about the proportion of the investments to be made in long-term and short-term securities. Even this request was turned down on the untenable plea that liberal income-tax concessions were available to the subscribers to Employees Provident Fund. The truth is that a vast majority of the securities do not earn taxable incomes.

WHERE ARE TEJAS?

There is an interesting sidelight to the Teja episode which has put New Delhi on the alert for a few days. The son of Mr J. Figures, a former President of Costa Rica, who was alleged to be shielding Dr Dharam Teja and his wife, told the US authorities that his father arrived in India on October 6. But the search that was made on receipt of the information in New Delhi yielded no clues about his whereabouts. According to reports received from the US authorities, the son, Marti Figures, denied that the Tejas had been given asylum at his father's farm in Costa Rica. He is reported to have told them that because of his father's absence from the country, prompt action could not be taken to prevent this case from becoming a political issue against his father. He was concerned that this might jeopardise his father's prospects in the next presidential election.

WINDOW ON THE WORLD

Who Commands the Heights of UK Economy?

JOSSLEYN HENNESSY

HOW MUCH DOES IT COST?

LONDON:

SOME PEOPLE say that slow economic growth and "social injustice" will persist in Great Britain as long as "selfish" private interests predominate and the state does not control "the commanding heights" of the economy. Others add that competition from nationalised industries, or the threat of it, would prod private enterprise into greater efficiency.

What are the facts? How much control does the state have over the British economy? How far have state enterprises prodded private enterprises into greater efficiency?

In 1966, the national income totalled £29,578 million, of which the public sector spent £13,676 million (45.6 per cent). Outstanding items included:

	£ million
Subsidies, housing, agriculture, nationalised transport, etc.	558
Social services	5,930
Defence (military and civil)	2,242
Public corporations	988
Local authorities	3,170

In 1965, approximately 5,906,343 men and women, or 23 per cent out of a total working population of 25,513,000 were dependent for their livelihood on the central government, local authorities or nationalised industries, as follows:

Nationalised industries (coal, railways, steel, gas, electricity)	2,153,452
National civil services (non-industrial staff)	827,000
Ditto (industrial staff, excluding nationalised industries)	232,100
Teachers	676,076
National Health Services (England, Scotland, Wales and N. Ireland):	
Doctors, dentists, and professional and technical staff	85,107
Others (nurses, administrative, works maintenance, clerical, transport etc.)	624,124
Armed forces	423,000
Local authorities	738,000
Others	127,484
Total:	5,907,343

From 1938 to 1962 total annual investment in the UK grew about seven times from £658 million to £4,608 million, but investment in the public corporations rose over 90 times from £10 million to £927 million.

These statistics demonstrate that the state's control is overwhelming not merely over the commanding heights but right down into the nooks and crannies of all sectors.

* The government imposed various financial obligations on the state industries, e.g., the return on electricity should be 12.4 per cent, on gas 10.2 per cent, on the post office eight per cent, etc.

† Subsidies to keep some private industries alive "in the national interest" have equally wasteful effects.

Since private enterprise depends on the nationalised industries for power (gas, electricity, coal, atomic energy) and to a substantial extent for transport and communications (railways, British road services, ports, docks, mail, telephones, cables, and key air services), and (since 1967) for steel (particularly important in the key construction and motor industries), the degree of efficiency attained by the state enterprises, and the prices charged, directly affect the efficiency and costs of all sectors.

Profits: Yardstick of Efficiency

The yardstick of efficiency of any enterprise is the return on capital invested. The 1961 White Paper on the Nationalised Industries said that the total income retained of all nationalised industries had been insufficient for the replacement of assets used up in the process of production. The White Paper said that it was, on the one hand, misleading to compare the return on capital with that in private industry (between 15 and 20 per cent against less than five per cent in most nationalised industries) because "in public utilities a lower return is traditional and nationalisation had aroused expectation of cheap goods and services," yet, on the other hand, the White Paper continued, if profitability on capital were assessed on easier financial criteria than those for private industry, there was a risk that too much of the nation's savings would be diverted into nationalised industries which, although the White Paper did not mention it, would impose higher borrowing rates for investment on private industry. Nor did the White Paper mention that private enterprise survives not by subsidies but by its readiness to give up the abodescent and to innovate.

But until the Conservative government instituted a new policy in the 1961 White Paper*, most decisions about production and investment in the nationalised industries were taken centrally on the basis of forecasts of the need for particular goods and services. The controlling power of demand, which can only work through free prices, was ignored. Investment in coal or electricity was not decided by the size of profits but by the planners' forecast that demand would double in 10 years. The planners overlooked that if prices were kept artificially low they distorted the allocation of resources by making the "need" for products seem greater than it really was. Until 1961, domestic consumers were undercharged, industry was charged somewhat higher prices, and the difference was made up by subsidies (usually called "loans").

This policy, intended to conciliate voters, was cited by Sir Robert Shone and H. R. Fisher as one of the factors "responsible for the slow growth of productivity in the UK". In concrete terms this verdict meant that the nationalised industries, far from contributing to faster national growth were, by keeping their prices down, adding to the burdens of private industry. In coal, for example, averaging of cost caused expensive types of coal to be sold below cost and therefore used for purposes for which cheaper coal would have done and caused unprofitable pits to be subsidised by profitable pits. Similar examples of waste of resources and of demand artificially swollen by uneconomic prices could be cited from every nationalised industry†. These industries have had to extract from the profits of free enterprise (channelled to them via government

"loans" from taxation) about half what they needed to maintain existing capital and the whole of what they needed to expand capacity, thus reducing the amount available to investors for the expansion of profitable private enterprise.

II

"GOVERNMENT BY CONVOY"

The state's ever widening intervention in all sectors leads to the pullulation of advisory commissions, joint consultative committees, boards of enquiry, etc. The amount and quality of the practical benefits derived from their discussion are open to question. As the Fabian commentator Michael Shanks says "As a dynamo, Whitehall can sometimes be depressingly sluggish. The desire for maximum consultation and consensus can too often lead to.....government by convoy.....moving forward at the speed of the slowest." An obvious drawback to government intervention in industry is that the instrument itself—the civil service—is not up to the job because its own traditions and expertise are adapted to wholly different work, and because civil servants are not exposed to the consequences of failure.

The plethora of forms that now cover every aspect of our lives grows in sheer volume as the population rises (between 1955 and 1965 the rise was 5,000,000) and threatens to engulf the civil services. New legislation constantly adds to the complexity of the work. The capital gains taxes sharply increased the Inland Revenue's need for valuers. Successive measures on the location of industry have caused bottle-necks in the Board of Trade. The Labour government created the new Department of Economic Affairs, the Ministry of Technology, the Ministry of Overseas Development and enlarged the spheres of many existing ministries. Amalgamations enabled some ministries to take over offices full of civil servants, but the DEA had to recruit extra clerical staff and "was fortunate enough to find a sausage factory closing down many of whose staff were happy to enter government service". That most ministries are below strength explains many failures. The Civil Service Commission's annual report sometimes betrays a note of helplessness. In 1965, it managed to recruit 2,500 new members for the executive class, compared with 1,800 in 1964, but even so was 500 short of numbers required.

Status Symbol

Even more serious is the diversion of the energies of top-ranking industrialists and businessmen from their proper functions of wholetime devotion to ensuring the efficient management of their enterprises. Membership of government sponsored advisory bodies has become a "status symbol" and a new kind of slow-moving "establishment" has been built up.

Over 60 per cent of the output of our universities go into public employment. In addition, vast numbers depend on government for jobs, favours or contracts. An article in 'The Times' entitled "How Officialdom Spreads Itself Beyond the Civil Service" listed a minimum of over 3,100 jobs with salaries ranging from £1,000 to £15,000 a year in the gift of the Prime Minister, Lord Chancellor, departmental ministers, central and local civil servants, and said that there had grown up a "retainer class who profess quite frankly never to make any report, or to produce any result, likely to displease their employers".

To argue that state-owned enterprise can prod private enterprise into efficiency implies that an inefficient firm can perpetuate itself. So it can, if protected by tariffs. But if it is not, and if it is losing money, it can borrow more money to keep alive only if it can persuade investors that new management, or new equipment, will ultimately pay off. If it fails to keep its promises, investors will not subscribe more of their savings

to keep it alive. No inefficient private company can perpetuate itself.

Such cases are not imaginary. It was not the National Coal Board which was setting the pace for the oil industry, but the Coal Board which secured a £2 a ton duty on oil to protect itself against competition. Another case: In 1962, the Whitehead Iron and Steel Co. (a) contracted to buy billets from Canada at £3 a ton less than they had been buying them from Richard Thomas & Baldwin, and (b) failed to raise their dividend. Stewarts & Lloyds put in a take-over bid for Whiteheads. Whereupon the state-owned Richard Thomas & Baldwin intimated its anxiety to buy up (with the taxpayer's money for RTB had none in their kitty) Whitehead shares at any price "in order to protect the company's interests". What interests? The press reported that RTB feared that, if Stewarts took over Whiteheads, RTB would have to dismiss 4,300 men. But if Whiteheads and Stewarts combined could produce the same or, as was claimed, a larger output with 4,300 fewer men, what becomes of the state's aim to goad private enterprise into more efficiency?

By keeping 4,300 men uneconomically employed in RTB, the state was intensifying the labour shortage. The police, post office, telephone service, London Passenger Transport, and a score of others, complain that they raise wages without being able to attract more staff, still less to raise productivity. If the state gave every surplus miner, railwayman, or RTB employee, who was too old for re-training, an ample pension, and generous re-training and house moving grants to others ready to work elsewhere, the cost might run to several million pounds, but the faster growth that would follow redeployment from obsolescent to expanding industries would make this trifling.

State Erodes Capital Market

Among the causes of the UK's slow postwar growth have been that the enormous enlargement of the public sector has seriously eroded private enterprise's ability to raise capital for expansion. When the Bank rate is raised, it is primarily the activities of the private sector which are restricted. State enterprises may disregard Bank rate; they can also borrow money under government guarantee, which enables them to secure, at the expense of private enterprise, a share of new investment funds far larger than an economic assessment of risks and profits justifies. Between 1951 and 1961, total gross fixed capital formation in the public and private sectors was £36,300 million. Of this, the public sector took no less than £16,500 million, or 45 per cent.

If the state were taking 45 per cent of capital resources and 45 per cent of a national income that was rising rapidly, this might be tolerable, because entrepreneurs, investors and consumers, would be getting rising incomes, but when, as now, the state's share rises faster than the national income, it is at the expense of the entrepreneurs and investors—the very people who are making the money to run the whole show.

III

STATE TO ACQUIRE EQUITY CAPITAL

A more insidious form of control than straightforward nationalisation is the new idea that state should single out and encourage those firms which are (presumably in the view of the government of the day) the most efficient, go-ahead, and technologically progressive, at the expense of more conservative companies, by favours such as contracts, grants or loans. It is then only right, the argument goes on, that the taxpayer who puts up the money should get the benefit of it by sharing in the equity capital. Mr Robert Maxwell MP, summing up the Labour party viewpoint, said: "I believe that government

(Contd. on p. 781)

(Contd. from p. 780)

should intervene directly in industry and be prepared to discriminate between firms if need be. Orders should be placed with firms which adopt the policies which the government desires to encourage, such as co-operation with the Prices and Incomes Board, increased productivity and import savings, and not with those which fail to do so".

One justification offered for state participation is that the total level of investment which private enterprise is willing to risk after its experience of repeated Stop and Go is below the level required to create the new capacity needed for faster growth. Therefore to induce a firm to invest more now than its normal commercial judgment would suggest, the government should offer to share the risk. Having induced entrepreneurs to invest more than their own judgment suggests, the government would then pump just sufficient (and no more) credit into the economy to take up the extra capacity. So close correspondence between extra capacity and extra credit as to allow growth without inflation or threats to the balance of payments, and the successful repetition of this process year after year, would indeed inaugurate an era of annual economic miracles.

'New Society', a left of centre weekly, cogently summed up the debate on these ideas thus: "The objections to the new development cannot be swept aside simply because they are traditional. It has yet to be proved that the government or its agencies are better at judging which firms are likely to be pace-setters than the market is: ministers and the civil service may now be backed by industrial advisers, but they still do not look altogether like the professionals to be set against the amateurs of City and industry. Whitehall is as likely as anywhere else to be taken in by a slick public relations campaign designed to show that a company is forward looking. (It's wonderful what well-placed photographs of young executives in shirt sleeves will do.) Linked with this there is still the classic fear that special favours to firms and individuals can slip easily into corruption, or at least into a kind of cosy share-out among the new politico-industrial Establishment. Moreover, the fact that companies like to receive grants, loans and contracts is not conclusive proof that they are desirable."

Difficult Task

And the left of centre, Professor Alan Day commented: "Making these cool calculations is a very difficult task. The committee system, on which Whitehall's machinery is based, more often than not comes out with the wrong answers. Committee decisions are greatly influenced by plausibility rather than truth, and by the steady persistence of those with time to lobby for their own preferences—often successful people running short of ideas, rather than those who are busy working out genuinely new ideas."

The contrast between the postwar experience of the UK and Japan in state expenditure and economic expansion is startling. Although Japan has double the UK's population, only eight per cent of her labour force is state employed, compared with 23 per cent in the UK. Whereas the public sector invests 45 per cent of gross fixed capital in the UK, it takes 31 per cent in Japan, and it is relevant that Japan invested on average over 32 per cent of her national income in 1953-62, in contrast with 15 per cent in the UK. The 1964 OECD "Survey" said that the reasons for Japan's fast growth had been that productivity rose faster than wages, that budget deficits to finance expansion had been rejected, and inflation thus avoided, and that it was the growth of business profits by no less than 282 per cent in 1953-62 that had made surpluses available for high investment. All this meant "remarkable stability of prices, full

employment, strong balance of payments" and the world's record growth rate of 9.4 per cent a year during 1953-62, compared with less than three per cent in the UK.

This slower rate of growth, imposed by the state's use of the commanding heights, itself weakens the performance of entrepreneurs. Generals reveal their greatness not in peace but in war. Great entrepreneurs do not emerge in industries that are not expanding. When profits are squeezed, risks are bigger, initiative is at a discount. Entrepreneurs are slower to try new methods, launch new products, or start new firms. On the other hand, when prospects favour expansion, British businessmen are as successful as any in the world: Charles Parsons in marine engineering; Alfred Jones, who built up Elder Dempster, acquired control of the west African carrying trade and brought the banana to the British breakfast table; William Lever, who opened up the mass market in soap; Alfred Harmsworth who saw the possibilities of rising literacy coinciding with technical changes in printing. These men were the equals in enterprise of any in the world. But if they had not been pioneering at moments favourable to profits, it is likely that we would never have heard of them.

It is sometimes argued that the state must undertake such enterprises as the development of atomic energy, national air services, the reorganisation of road and rail transport or the building of a channel tunnel, because the costs are beyond the resources of private enterprise. But where governments allow generous profits to be made, the savings to finance the expansion of private enterprise will always be forthcoming, and companies can grow gigantically: the net sales in 1963 of General Motors were £5,700 million, i.e., nearly five times larger than the average annual increase in the UK's national income between 1958 and 1962. Eight other companies also had net sales several times above it, and net sales in hundreds of millions of pounds were commonplace.



Sub-Regional Co-operation in Africa

MADAN M. SAULDIE

WHEN THE Charter of the Organisation of African Unity was signed by the African heads of government in Addis Ababa in May 1963, one of the major decisions centred on the studies to be undertaken for creating on the continent a free trade area, common external tariff, co-ordination of transport and the establishment of road, air and maritime companies, an African payments and clearing union, the creation of a pan-African monetary zone and the ways to harmonise existing and future national development plans of African countries. This accent on economic co-operation on the African continent as a whole at that time appeared as uphill a task as it appears today. Yet Africans have shown that this is not altogether an unrealisable dream. As could be expected in such a vast area, rife with complexities and diversities, the most pragmatic approach was to begin the work on sub-regional levels. The Africans have so far acquitted themselves admirably, even though in an understandably limited way.

The sub-regional principle, however, is not new to Africa. It has its roots in its colonial past. There has existed, for forty years now, an East African Common Services Organisation and a common market between Kenya, Uganda and Tanzania in which there was a common currency and common transport and communications. (The currencies, however, were split up last year). Similarly, in British west Africa, there existed common currency, airlines and marketing boards between Nigeria, Ghana, Sierra Leone and Gambia. In French west Africa, again, there were two groupings, with headquarters in Dakar and Brazzaville, providing for a common market and currency links among francophone countries. Lastly, there was the Federation of Rhodesia and Nyasaland (dissolved after ten years in 1963) in central Africa which, though politically obnoxious, had its own economic advantages inasmuch as it provided co-operation in respect of customs, railways, inter-territorial roads, airlines, ports and major irrigation works.

Wind of Change

But as the 'wind of change' swept over Africa during the 'sixties, new national individualities began taking shape with differing nationalist symbols. New sense of co-operation replaced the one imposed by the colonial masters. Guinea and Mali in west Africa offered anti-French postures and preferred isolation from their neighbours, east African countries started talking in terms of their own national exigencies and the Rhodesian Federation crumbled leaving Malawi and Zambia badly burdened with federal debts as well as the strains which white-dominated Rhodesia caused after its unilateral declaration of independence in November 1965.

But thanks to the Africans' early realisation and the tireless efforts of the UN Economic Commission for Africa, sub-regional co-operation has become a reality. The new and improved institutions, however, are being built to some extent on the existing ones.

The number of groupings in the francophone Africa has been the largest and varied. A Union Douaniere de L'Afrique de l'Ouest was conceived in June 1959 by seven francophone countries of west Africa, which has now a permanent council of ministers, a committee of experts and a general secretariat. An Organisation Africaine et Malgache de Cooperation Economique (OAMCE), the economic wing of the political Union Africaine et Malgache (UAM) of twelve countries agreed "to reinforce the economic ties which unite them while respecting the international agreements to which they are committed". But the OAMCE was superseded in 1964 by the Union Africaine et Malgache de Cooperation Economique and by the Organisation Commune Africaine et Malgache (OCAM) formed at

Nouakchott in 1965, keeping intact, in any case, the institutions created by the OAMCE.

Another grouping, the Union Douaniere et Economique de l'Afrique Centrale (UDEAC) comprising Chad, the Central African Republic, Cameroon, Congo-Brazzaville and Gabon was agreed upon on December 8, 1964, at Brazzaville. The union became effective from January 1, 1966, and provides for the elimination of all trade barriers among member-states, the adoption of procedures for the equitable distribution of industrial projects, co-ordination of development programmes, a common customs tariff and harmonisation of the financial systems and investment codes of the member-states. A proposal for a wider economic community of west Africa, covering 14 countries from Mauritania to Nigeria, has also been accepted in principle.

In north Africa, the countries of the Maghreb—Morocco, Algeria, Tunisia and Libya—in November 1964 agreed to create a framework for economic co-operation. Specialised commissions have been set up to consider co-operative measures in industry, commerce, transport, posts, tele-communications, tourism and statistics.

Biggest Ever Grouping

East African countries, stretching from the Sudan to Zambia, will be knit into the biggest ever grouping when an economic community proposed in the May 4, 1966, agreement comes into being. The community seeks to promote co-ordinated development in industry, agriculture, transport, communications, trade and payments, manpower and natural resources. The community also aims at the progressive reduction of customs and other barriers in trade between members and will seek more favourable terms of trade for their products in the world markets. But while efforts to make the community effective are continuing, a treaty has been signed last June by the Presidents of Kenya, Uganda and Tanzania, establishing the East African Community of the Three with effect from December 1, 1967. While the treaty strengthens the existing common market in east Africa, it also provides for the establishment of a regional development bank and defines terms for the continuation of the common services.

The most outstanding example of co-operation in Africa, however, has been the establishment of the African Development Bank, wholly owned and operated by the Africans. The ADB has an intended capitalisation of \$250 million, half of which is to be paid in by member-states and half to be available by call. By the end of 1966, 29 states had ratified the agreement and about \$40 million had been paid in. Though participation in the bank's equity capital is restricted to African governments, the ADB is expected to seek loan assistance from non-African sources and participate in joint financing of projects with other lending institutions.

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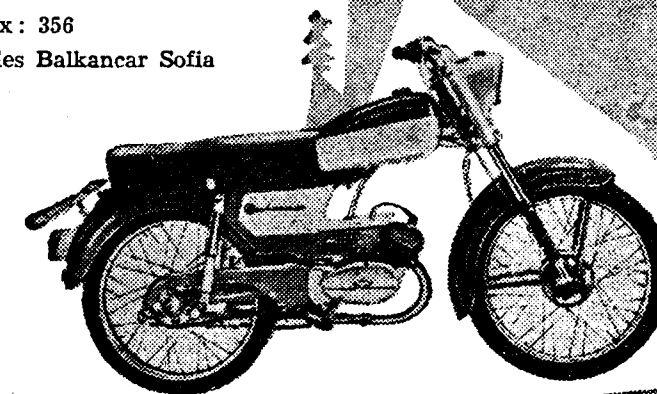
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INTERADS

Trade Winds

RAILWAY FINANCES

WHILE THE revenue of our railways till now during the current financial year has been trailing behind anticipations, their expenses have exceeded the budget estimates. This was disclosed last week by the Railway Minister, Mr C. M. Poonacha. He told newsmen that the gross earnings of railways during the five months to August last had fallen short of expectations by as much as Rs 10 crores, mainly due to slackness in the goods traffic, especially in eastern India which besides having the country's main steel and coal complexes, is an important industrial belt. Although the industrial activity might pick up from next month onwards, thanks to the bumper agricultural crop, Mr Poonacha was not sure whether the increase in the goods traffic would be adequate to make up for the earnings already lost. The originating goods traffic during the period April-August, Mr Poonacha revealed, was nearly 1.5 million tonnes less than the anticipated traffic. The passenger traffic, however, was better this year. It might record a growth rate of 5.2 per cent as against three per cent assumed while preparing budget estimates. The fall in the earnings from the goods traffic, thus, might be counterbalanced to some extent by the increased revenue from passenger traffic.

The operational and administrative expenses of railways, Mr Poonacha disclosed, had gone up substantially. Against the budgeted provision of Rs 13 crores for payment of increased dearness allowance to the railway employees, the actual expenses under this head, if the third instalment of increase in DA becomes due, as feared, will be of the order of Rs 23 crores—an increase of Rs 10 crores over the budgeted provision. The recent increase in coal prices (which are expected to remain operative till March 31, 1968) will push up the fuel bill by Rs 5 crores (in a full year, if no further increase in coal prices is there, the addition to the fuel bill is estimated at Rs 9 crores). Mr Poonacha opined that there was not much scope for economy as long as modernisation of railways was not taken up at a pace faster than at present. But there were obvious difficulties in this regard, he pointed out, arising out of the necessity of our railways being labour-intensive.

Uneconomic Lines

With a view to putting the railway finances in a better shape, the Minister, however, revealed that a survey of uneconomic lines had been undertaken, the idea being to find out the possibilities of closing down some of these lines. The matter would be discussed with the Chief Ministers of various states in the near future. In areas where the road transport was already well developed along the uneconomic railway routes, there apparently was a good possibility of dispensing with the railway services, said Mr Poonacha. In several other states in which railway operations were uneconomic but the road transport was also undeveloped, the railways, he disclosed, would be willing to provide financial assistance to the states for developing road transport, provided they agreed to the scrapping of the uneconomic lines. In all about 60 lines, Mr Poonacha said, were uneconomic. They were showing a loss of about Rs 6 crores per annum on an investment of nearly Rs 34 crores.

Advance Orders

Outlining the measures that the railways had taken to help the industries hit by the recent recession, Mr Poonacha observed that the assistance railways could offer was only marginal. Out of the total Rs 178 crores development orders which they could place, orders to the tune of not more than Rs 53 crores could go to the private sector; the rest of the equipment is being supplied by the railways' own production units. Orders worth Rs 40 crores for the supply of wagons, central buffer couplings, etc., by the private sector units, Mr Poonacha hoped,

would be finalised in the near future. The supplies, however, would have to be effected only in 1968-69.

SHIPS AND PORTS

Addressing newsmen last week on his return from a tour of Europe and the United States, the Minister for Shipping and Transport, Dr V. K. R. V. Rao, observed that his discussions in Britain and West Germany with both the officials and non-officials connected with shipping had evoked optimism in him that these two countries might soon soften their aid terms to enable their shipyards to build ships for us. The softening of the aid terms might be in the form of extending the payment period for the ships to be bought from the present five years to nine or ten years. Dr Rao also revealed that he had approached these two countries for some aid for the development of our shipping industry over and above what might be available under the Aid India Consortium. He hoped that the two countries would view this request favourably.

Dr Rao further disclosed that he had signed a contract in Belgrade for the supply by the Yugoslav shipyards of three more convertible bulk carriers, of 65/85,000 tonnes each. These bulk carriers would be delivered by 1970-71 along with the two large tankers, of 77,000 tonnes each, for which orders were placed with the Yugoslav shipyards a couple of months ago. Dr Rao expressed the hope that as a result of the contract signed with the Yugoslav shipyards and the assistance that might be available from Britain and West Germany, it would be possible to achieve the fourth Plan shipping target of three million tonnes. The prices of ships that might be built for us in Britain and West Germany, Dr Rao said, would be competitive. Their delivery schedules would also be satisfactory.

Dr Rao further announced that the International Ports and Harbours Association had agreed to send a team of three experts to study the conditions at our major ports with a view to advising on the improvements that needed to be made in the light of the changes taking place in the shipping technology. The foreign experts are expected here by early December. Based on their preliminary report, studies in depth would be undertaken through setting up a commission.

Talking about his discussions with the World Bank and the International Development Association, Dr Rao said that these agencies were interested in assisting us not only in our road development programmes, but also in those relating to ports.

INDUSTRIAL DELEGATION TO JAPAN REPORTS

The Indian industrial delegation, led by Mr L. N. Birla, President of the Federation of Indian Chambers of Commerce and Industry, which visited Japan and the Philippines last month, submitted its report to the Deputy Prime Minister on October 20, and also discussed with him the salient points of the report and the follow-up action that ought to be taken at the level of the government and industry. The report states that the apprehension of another devaluation, the chronic shortage of foreign exchange, the continuous rise of essential commodity prices, some features of the Patent Bill now before Parliament, the high tax rate on royalties, difficulties in getting imported materials and delays in giving visas for Japanese personnel for joint ventures are considered by Japan as major disincentives for Japanese capital investment in our country. The delegation discussed with Japanese trade and industry ways and means of expanding and diversifying trade relations between the two countries and the role that Japanese private capital could play in our development. Japan was also told that India offered scope for joint ventures in industries, such as fertilisers, farm equipment, chemicals, electronics, and petrochemicals. While the Indian delegation raised the question of tariff and non-tariff barriers and suggested the abolition of im-

port duties on black tea and reduction of duties on jute fabrics, bags and sacks, coir mats and matting, sheep and goat skins, the Japanese pointed to export duties at present levied in India on manganese ore, oilcake and raw cotton and wanted reduction in them. The Japanese also sought improvement in the quality of Indian raw cotton, sheep casing, salt, sheep skins and hides, and tobacco leaves. The Indian delegation referred to the trade gap between the developing and developed countries and hoped that Japan would give a lead in finding appropriate solutions in accordance with the Kennedy Round decisions. The Japanese suggested that for facilitating joint ventures between the two countries, India would do well to establish an investment centre in Tokyo on the lines of the one functioning in New York.

EXCISE DEMAND HELD ILLEGAL

In the wake of the verdict of the Gujarat High Court, holding illegal the searches of the New Swadeshi Mills and Manjushri Textiles at Ahmedabad (see 'Eastern Economist', dated Oct. 20, page 742), the Delhi High Court accepted on October 20, the writ petitions filed by the T.I.T. and B.T.M., Bhiwani, the two mills said to be owned by the Birla group, challenging imposition of additional excise duty on sarees. The department's objection that the writ petition did not lie was not accepted by the court. The department's contention that the saree length prescribed in the Textile Control Order related to a single saree and not to a pair, was also rejected by the court. The court held that the length prescribed related to a running uncut length irrespective of whether it was a single piece or a pair. The department's contention that the demand raised by them was covered by Rule 10A of the Central Excise Rules and not by Rule 10 was rejected by the court since,

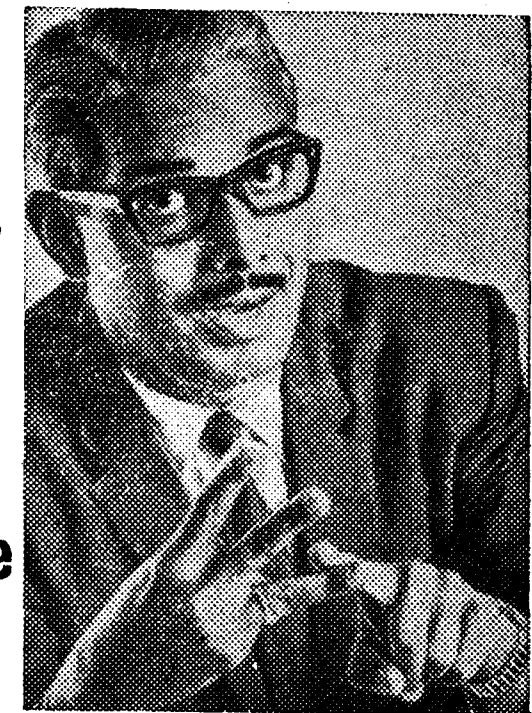
amongst other reasons, no collusion has been alleged between the mills and excise officers. It was further held that the excise authorities transgressed the principles of natural justice also in this case inasmuch as no opportunity was given to the mills to represent their point of view before the department. It was further held that the excise authorities failed to apply and exercise their mind which was statutorily required of them and thus acted illegally, in raising the additional excise demand on a clarification from the Textile Commissioner.

A.R.C. REPORT ON PUBLIC UNDERTAKINGS

The Administrative Reforms Commission submitted to the Government of India on October 20 its 220-page report on the working of the public sector undertakings. The salient features of the 63 recommendations made in the report are: Operational units should have necessary powers for functioning with speed and efficiency without hindrance and outside interference. Statutory sector corporations be set up of enterprises in the sphere of iron and steel, engineering and machine tools, electricals, coal and lignite, petroleum and petrochemicals, mining, fertilizers, chemicals and drugs, aviation and shipping. Under the arrangement all the operating units in these sectors which are owned by the government should become constituent units of the appropriate sector corporations. The function of the sector corporations will be the promotion and development of the enterprises in the area concerned. The units in the corporation will have operational autonomy and the sector corporation on its part will provide for and co-ordinate common service activities like research and consultancy, training and sales promotion. The ARC has referred to consumer interests in its report and urged that due weight should be given to this aspect.

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STATE BANK FOR SERVICE

To prevent public undertakings becoming large monopolies to the detriment of consumers' interest, it has been suggested that consumers' consultative councils should be constituted to deal with matters involving such interests and for advising the government and sector corporations on matters referred to them. These councils should consist of representatives of organized bodies of consumers concerned, controlling ministry, sector corporation and other interested government departments and public undertakings. It has been suggested that Parliament may elect two members to serve on each council.

EXPORT PERFORMANCE GUARANTEE

The Export Credit and Guarantee Corporation has introduced an "Export Performance Guarantee" designed to help exporters to secure on easy terms bank guarantees which they may be required to furnish in connection with export transactions. It will be issued to commercial banks to protect them against 66-2/3 per cent of any loss that they may suffer on account of guarantees issued on behalf of exporters. With the protection afforded by the ECGC guarantee—which is in the nature of a counter-guarantee to banks—the banks should be able to liberalise their policy in regard to issue of bank guarantees on behalf of their exporter-clients. If the exporter fails to perform its obligation as a result of which the bank guarantee is enforced, the bank will ask the exporter to reimburse. In case the amount cannot be recovered from the exporter due to his insolvency or protracted default, the bank will be entitled to make a claim on the ECGC for 66-2/3 per cent of its loss. The export performance guarantee will also be issued in respect of letters of credit opened for import of raw materials provided that such raw materials are specifically meant for manufacturing goods for export.

101 JOINT VENTURES APPROVED

The Government of India has accorded approval to 101 joint ventures during the first half of 1967. These include 37 projects involving financial participation. Countrywise, the UK takes the lead with 27 ventures, followed by the USA 22, Japan 13, West Germany 10, Sweden five, Switzerland and Italy four each and France three. The other participants include Holland, Belgium, Norway, Canada, Australia and Denmark. Mechanical and electrical machinery and machine tools industries accounted for more than half of the joint ventures.

I.F.C. BONDS SUBSCRIBED

The 7½ per cent Industrial Finance Corporation Bonds, 1979, which opened for subscription on October 16, had been over-subscribed when they were closed in Bombay on October 18, according to a press note issued by the Reserve Bank. The corporation issued the bonds at a discount of two per cent. The total amount issued was Rs 8 crores. The 4.5 per cent IFC bonds, 1967, redeemable on November 25, were allowed to be converted into the new issue.

IMPORT BY ACTUAL USERS

Under the current import policy, actual users can apply for import licences for raw material, components and spares only after utilising their previous licences to the extent of 90 per cent by opening letters of credit or 60 per cent by actual import or 70 per cent by shipment. The government has, however, noticed that most of the actual users are applying for licences without furnishing the necessary evidence that their previous licences have been utilised to the extent indicated above. Such applications are liable to be rejected. The actual users are, therefore, advised to apply for licences only when they are eligible to do so and the application should invariably

be supported by the requisite evidence of utilisation of previous licences.

L.I.C. BUSINESS

The total new business completed by the Life Insurance Corporation during the first six months of the current financial year amounted to Rs 264.37 crores. This was Rs 4.59 crores more than the business done during the corresponding period of last year. In September this year new business amounting to Rs 63.31 crores under 108,164 policies, including foreign business of Rs 80 lakhs, was completed. This showed an improvement of Rs 3.51 crores over the figure for the preceding month.

JUTE FORWARD TRADING

The East India Jute and Hessian Exchange Limited, Calcutta, 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 October 20.

FREE SUGAR FROM DECEMBER

The date for release of free sugar in the market has been advanced from February, 1968, to December this year. This was disclosed by the Food Minister, Mr Jagjivan Ram, last week in Kanpur while inaugurating the annual convention of the Sugar Technologists' Association of India. This step will help bring down the prices of gur and khandsari and, consequently, of sugar. The minister said that the free sale would start at the end of the first month of the all-India crushing season which begins from November 1. The Reserve Bank has been asked to give due consideration to the sugar industry's request that bank advances this year should take into account the stock of 40 per cent of free sugar with them.

SUGAR ORDINANCE

The President of India promulgated on October 21 an Ordinance amending the Essential Commodities Act, 1955, which empowers the Government of India to acquire 60 per cent of the sugar production this year at fixed prices. The prices will be fixed having regard to the minimum price of sugarcane, manufacturing cost of sugar, duty or tax paid or payable and a reasonable return on the capital employed for manufacturing sugar. Subject to a minimum of 13 lakh tonnes to be acquired by the government, the sugar policy of partial decontrol for the 1967-68 sugar season permits the manufacturers to retain 40 per cent of their production for sale in the free market.

WEST U.P. SUGAR MILLS FACE CLOSURE

With gur prices ruling high and the decision of the cane growers not to supply cane to the sugar factories at less than Rs 20 per quintal, 17 factories in western Uttar Pradesh, comprising Meerut, Muzaffarnagar, Bulandshahr and Saharanpur districts, are facing closure. This was disclosed at a press conference held in New Delhi last week. A spokesman of the affected factories suggested the government to take the following two steps: (1) Allow option to the sugar factories for base year, which may be either 1966-67 or 1967-68. This will enable factories situated in areas where sugar production was less in 1966-67 to pay competitive price for cane. If this is not agreed to, at least base production should be average of 1966-67 and 1967-68. (2) In order to bring down the prices of gur to reasonable level, restrictions should be imposed on the movement of gur as has been done by some states already. If both these suggestions are not acceptable, at least minimum price of cane for

this area be kept higher as was done in the past considering the special features of this region.

BHILAI RAILS FOR RUSSIA

The Government of USSR has agreed to buy next year 200,000 tons of rails and structurals manufactured at the Bhilai steel plant, it was disclosed by the Union Minister for Steel, Mines and Metals, Dr Chenna Reddy, in New Delhi last week. The Soviet Union has purchased this year 100,000 tons of Bhilai's products. It is also considering import of pig iron from Bhilai.

INDUSTRIAL CABLES TO KUWAIT

The informal export consortium of the Indian Cable Manufacturers' Association (ICMA) has won a contract for supply to Kuwait of industrial cables worth £1.1 million (Rs 2.3 crores). This is the first time that the Indian cable industry has successfully competed with the established and well-known manufacturers in this sophisticated field. The association is hopeful of securing shortly another order worth Rs 1 crore from Singapore. The Government of India announced in its recent export policy some concessions to encourage the Indian cable industry in its export drive. Export of cables will provide a fillip to the industry's declining profitability and decreasing production in view of the home demand currently being unable to utilise even 40 per cent of the installed capacity of the industry. The consortium has been formed by the Indian Cable Company (INCAB), Asian Cables Corporation, Cable Corporation of India, Fort Gloster Industries, Industrial Cables, Oriental Power Cables and Universal Cables. At a press conference held in New Delhi last week, a spokesman of the consortium said that the Indian cable manufacturers were at a considerable disadvantage vis-a-vis their counterparts abroad in the field of export, in that the cost of plant in India is higher by 2.2 times to that in European countries and also the European manufacturers are in a position to purchase their raw materials at concessional rates. According to him, the government currently imported cables worth Rs 6 crores annually. He was conscious of the fact that these imports were a part of the turn-key collaboration projects, but he wanted the government to do away with such imports since the indigenous industry had the requisite capacity. The industry was also in a position to undertake the manufacture of telephone cables, and it could meet the country's entire additional demand for such cables at an extra investment of Rs 1 crore in terms of balancing equipment. The spokesman thought that there was no necessity for the Government to go ahead with the establishment of the proposed Rs 22-crore telephone cable manufacturing plant at Hyderabad.

NYLON YARN FROM ITALY

The State Trading Corporation of India has concluded a deal with a consortium of seven Italian suppliers for the purchase of 32.50 lakh lbs of nylon yarn worth Rs 2 crores between November 1967 and March 1968. The payment will be made against the ten-year credit granted by the Italian government. Out of the 32.50 lakh lbs of yarn to be purchased, 7.25 lakh lbs would be twisted yarn; the rest will be untwisted yarn covering seven deniers. The STC had purchased Italian yarn worth Rs 30 lakhs from non-consortium parties early this year. It has still a balance licence of about Rs 65 lakhs which is to be utilised for import of cupramanum yarn.

BRITISH BANK RATE RAISED

The Bank of England raised on October 19, its interest rate from 5.5 per cent to six per cent. The increase has been effected in a move to protect the British pound and to keep money from being attracted by rising interest rates in the United States. The decision did not come as a surprise in financial quarters, but the half per cent increase was the lowest that was expected.



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Company Affairs

INDIAN DRUGS AND PHARMACEUTICALS

MR INDARJIT Singh, Chairman, Indian Drugs and Pharmaceuticals Ltd, revealed at the annual general meeting of the company held recently that continuous industrial production at the Antibiotics project at Rishikesh was likely to start early next year. By the end of 1966-67 an amount of Rs 21.18 crores had been spent out of the sanctioned estimate of Rs 24.26 crores. He pointed out that nearly 30 per cent of the work remained to be done in the main blocks namely fermentation and recovery and purification blocks. The work on the finishing block was nearly completed to the extent of 50 per cent. The Uttar Pradesh Electricity Board, he added, had moved in to stabilise the power intake through two separate lines in order to overcome the problem of power failures. The board had assured the company that all possible efforts would be made to avoid any repetition of failures. The chairman indicated that in the absence of a spare generator in the project, a power failure even for five minutes could cause considerable loss. Non-sterile potassium penicillin had been produced in some quantities during tests on equipment. Steps were being taken to produce streptomycin during the current year. The collaborators have advised the company that it would be best to take six to nine months to stabilize production of one product before starting another. The schedules of supply of seed materials had been worked out with this objective in view. The new technological instructions due to changes in production techniques had raised inputs, and, therefore, the cost of the project had been raised significantly.

Mr Indarjit Singh pointed out that work on the Synthetic Drugs project at Hyderabad on production blocks had been completed to the extent of 60 to 70 per cent. The unit was likely to be commissioned progressively over the current financial year in the first quarter of 1968-69. Some delays were due to changes in technology such as in respect of folic acid and sulphadimidine. It was possible, he added, to introduce the new technology on the basis of existing equipment available in the plant to produce 50 to 60 per cent of the rated production immediately. The unit was already producing phenacetin. The power supply system in Hyderabad was also a cause of anxiety, he added. An average of 10 power failures had taken place in a month and voltage fluctuations were quite frequent. The third feeder was likely to be commissioned by the Andhra Pradesh State Electricity Board which, it was hoped, would avoid failures.

The Surgical Instruments plant at Madras had produced 245,944 instruments during the year and sold 15,969 instruments. The stock carried at the end of the year was 261,160 because ready market in India was not found for these instruments. The reason for this lack of demand appeared to be in the pattern of production. The unit was rated to produce 166 types of instruments out of which 9 were considered to be fast moving items and were expected to be produced to the extent of 60 per cent of the total capacity. Recent surveys for demand of these instruments revealed that the needs of the market were for a much larger range of instruments in limited quantities. The chairman, therefore, was of the opinion that the plant had to be completely reoriented to take account of this basic anomaly. The unit had designed and got approved the IUCD and vasectomy sets for which substantial orders had been received. The plant would have a capacity to compete in the foreign market and a delegation would shortly visit west Asian and other countries to assess the market for these instruments.

INDIA CEMENTS

The India Cements Ltd recorded a production of 100 per cent capacity at Sankarnagar factory while it was 108 per cent

at the Sankaridrug factory so that the total production during 1966-67 was 947,117 tonnes. This was revealed by Mr P. Suryanarayana, Chairman of the company, while addressing the annual general meeting held recently at Madras. The company, he added, had to incur an additional expenditure of nearly Rs 40 lakhs due to use of oil in the second unit at Sankaridrug. Moreover, due to increased cost of production the profits were considerably affected. The chairman added that the one-million-tonne expansion scheme undertaken by the company was progressing smoothly and was expected to be completed by 1972. Financial assistance to the extent of Rs 5 crores was promised to be extended by the Industrial Development Bank of India, L.I.C., Industrial Finance Corporation of India and ICICI, out of which a sum of Rs 2.75 crores had already been availed of by the company.

SOUTH INDIA SHIPPING

Mr J.H. Tarapore, Chairman, South India Shipping Corporation Ltd., Madras stated at the annual general meeting held recently that bulk carrier tonnage of this company was the second largest in the country and it owned the largest bulk carriers on the Indian Registry. Out of a total acquisition by Indian owners of new bulk carriers during 1966 of 315,000 DWT, this company's share was 170,000 DWT. The company had made all efforts to keep its vessels, subject to cargo being available, in the Indian trades. He added that the previous assurance of the Government of India that a substantial share of Indian ore export would be readily available to Indian shipowners had not materialised. The MMTC, however, was making efforts to persuade the Japanese buyers to purchase ore on a c.i.f. basis or at least allocate 50 per cent of the cargo purchased by them on f.o.b. basis, for transportation in Indian bottoms. Mr Tarapore stated that Indian owners should fix their vessels on sufficiently long-term basis which would help them to expand their fleets at a much faster pace and such action would also act as insurance against periods of slump. He, however, stated that Indian tramp shipowners' trading licences were now being issued for a period of one year at a time. To allow the shipowners to enter into long-term contracts the government should issue licences for longer periods.

POYSHA INDUSTRIAL

Mr M. R. Ruia, Chairman, Poysha Industrial Co. Ltd, pointed out at the annual general meeting held recently that total sales of the company during 1966-67 dropped to 206 lakhs as against Rs 216 lakhs last year, mainly due to lower supply of tinplate. During the current year the supply of tinplate, he added, had increased and total sales were expected to be between Rs 3 and Rs 3.5 crores. This company was the first to introduce 5½ oz. juice cans and the use of electrolytic tinplate for the processed food industry. The company proposed to introduce other sizes of cans based on international standards. The ex-mill prices of indigenous tinplate, he added, had increased three times from Rs 860 per tonne in 1951-52 to Rs 2230 at present which was double the international price. Mr Ruia stated that attempts had been made to reduce costs through advanced techniques and the government had been requested to take up the production of double cold reduced tinplate, a thin but extremely tough material, in the public sector units. It was necessary to make changes in methods of technique to face changes in the situations, he added.

GWALIOR RAYON'S PROGRESS

The Gwalior Rayon Silk Manufacturing (Wvg.) Co. Ltd has made substantial progress within a period of ten years. In "Decade of progress" 1957-66, a booklet published by the company, it claimed that it has succeeded in achieving its objective of manufacturing a substitute to cotton out of forest woods. Today the company's activities cover the production of rayon

grade pulp, staple fibre and high quality fabrics. Besides the company fabricates its own machinery and equipment. The 55 million kilograms of staple fibre produced annually by the company is used by hundreds of textile mills and the yarn spun from it gives employment to thousands of powerloom and handloom weavers. It has won an award from the Indian Chemical Manufacturers' Association for the production of rayon grade pulp for the first time in India from indigenous materials by Indian technicians without any foreign collaboration or know-how.

The sales of the company have increased to Rs 39.58 crores within a period of ten years from Rs 3.71 crores and net profit has gone up during the same period from Rs 2.55 lakhs to Rs 234.43 lakhs. The equity capital has doubled during the period from Rs 250 lakhs to Rs 500 lakhs. Total foreign exchange savings and earnings during the period has risen from Rs 163.79 lakhs to Rs 2,269.39 lakhs. The market price of the equity share has more than doubled from Rs 12 in 1957-58 to Rs 28.50 at the end of 1966-67. The price per share converted on equity capital of 1957-58 adjusted to right and bonus issues works out to Rs 57 at the end of 1966-67. The number of employees has increased from 2,463 in 1957-58 to 13,225 at the end of 1966-67.

METTUR INDUSTRIES

Amalgamation was announced recently of two industrial and commercial enterprises of South India, Mettur Industries Ltd and Beardsell and Co. Private Ltd. While the latter as a commercial house had been in existence since 1914, Mettur Industries was established in 1939 under the former's managing agency. Started initially as an import-export house, Beardsell has in recent years diversified its activities with branches at important cities in this country and are now engaged in the manufacture and distribution of expanded polystyrene, fabrication of aluminium suspension systems, the marketing of 'May fair' airconditioners, textile machinery, mill stores, paper, chemicals, plastics and other items. The amalgamated company will be known as Mettur Industries Ltd and operate as a manufacturing-cum-marketing organisation. The paid-up capital and reserves of the company are over Rs 1.35 crores. The increased financial and organisational resources should, according to the sponsors, enable the new company to widen the range of their activities and participate more fully in the country's economic development.

TATA CHEM.

The value (inclusive of excise duties) of the sales of all Tata Chemical's products for the quarter ended September 30, 1967, was Rs 193.98 lakhs. The turnover for the corresponding period in the previous year was Rs 195.22 lakhs. The lower turnover was due to transport difficulties during the unusually heavy monsoon this year in Saurashtra. Among the company's major products, the output of soda ash, during the quarter, increased by 2.3 per cent to 45,302 tonnes.

GREAT EASTERN

The directors of Great Eastern Shipping have proposed to raise the dividend from 16 per cent to 20 per cent for 1966-67 and they have also proposed to issue bonus shares, subject to the sanction of the government, in the ratio of one share for every three shares held by capitalising Rs 60 lakhs out of the company's reserves. The proposed dividend will be exempt from tax. The proposed one-for-three bonus issue is in supersession of the earlier intention to give bonus shares in the ratio of one share for every nine shares held. The bonus shares will rank pari passu with the existing equity shares and will be entitled to dividend from the current year. The step-up in the distribution follows an improvement in the company's working results for the year ended June 30, 1967. The company's freight and chartered hire earnings have increased to Rs 8.25 crores from Rs 6.28 crores in 1965-66. The rise in the earnings

is attributed mainly to the impact of devaluation on freight rates in terms of rupees.

The company's gross profit has increased to Rs 2.82 crores from Rs 2.16 crores in the previous year. The directors have provided Rs 95.38 lakhs for depreciation and Rs 10.17 lakhs for managing agents' commission. A sum of Rs 71.75 lakhs has been transferred to the development rebate reserve.

D.C.M.

The Delhi Cloth and General Mills Ltd has decided to issue 880,000 ordinary shares of Rs 25 each as rights in the ratio of one for three ordinary shares held. The Rs 2.20-crore right shares are to be offered to equity shareholders as on November 20, 1967. The date of issue of the Rs 80-lakh 9.5 per cent redeemable cumulative preference shares is yet to be fixed.

The additional capital of Rs 3 crores is required to meet a part of the cost of the company's Rs 25-crore petrochemical project at Kota. It has entered into a collaboration agreement with two Japanese firms, which will meet the entire foreign exchange requirements of about Rs 16 crores and will supply the necessary equipment on a deferred payment basis. The balance of about Rs 6 crores will be met by long-term institutional loans and internal resources. The work on the project is understood to be progressing according to schedule and trial production is expected to commence in October 1968. The plant will have a production capacity of 240,000 tons of urea.

INDIAN EXPLOSIVES

Indian Explosives Limited is entering the capital market with a public issue of Rs 286.28 lakhs comprising 2,862,800 Series A equity shares of Rs 10 each. The subscription list opens on November 6 and will close on November 16 or earlier but not before November 10. The authorised capital is Rs 25 crores and the issued, subscribed fully paid-up capital Rs 4.80 crores. The present issue is for Rs 16.68 crores. Out of this, the President of India will take up shares worth Rs 1.90 crores and Imperial Chemical Industries Limited, UK, Rs 7.60 crores. International Finance Corporation, US, has agreed to subscribe for shares of Rs 2.15 crores. Shares worth Rs 216.72 lakhs will be offered to the existing shareholders as on September 30, other than the President of India and the Imperial Chemical Industries Ltd, UK, in the ratio of 36 new shares for every 10 held. The balance of shares worth Rs 286.28 lakhs will be offered for public subscription.

The issue proceeds will be utilised to set up a urea fertilizer plant at Kanpur. A licence to produce urea at the rate of 450,000 tonnes per annum has been granted to the company. Thus, the base of the company's activities has been broadened since the manufacture of explosives and fertilizers is based on the manufacture of ammonia. The main raw material, naphtha, will be obtained from Barauni refinery of Indian Oil Corporation through a pipeline. The company has made the necessary arrangements for foreign exchange and rupee loans to meet the total cost of the project which is estimated at Rs 61.86 crores.

CAPITAL AND BONUS ISSUES

Consent has been accorded to ten companies to raise capital amounting to more than Rs 95.75 lakhs. Eight of them are to issue bonus shares exceeding Rs 70.75 lakhs. The amount of bonus shares ranges between Rs 65,000 and Rs 29.09 lakhs.

The National Rayon Corporation Ltd, Bombay, has been accorded consent to capitalize Rs 29.09 lakhs out of its general reserve and issue fully-paid equity shares of Rs 100 each as bonus shares in the ratio of one for every ten equity shares held.

The Simplex Mills Co., Ltd, Bombay, is given consent to capitalize Rs 18,14,400 out of its general reserve and issue fully-

paid equity shares of Rs 50 each as bonus shares in the ratio of one for four shares held.

India Leather Corporation (P) Ltd, Madras, has been granted consent to capitalize Rs 10 lakhs out of its free reserve and issue fully-paid equity shares of Rs 100 each as bonus shares in the ratio of one bonus share for every one equity share held.

American Springs and Pressing (P) Ltd, Bombay, has been accorded consent to capitalize Rs 7.5 lakhs out of its general reserve and issue fully-paid equity shares of Rs 500 each as bonus shares in the ratio of one for four held.

Ghaziabad Engineering Co. (P) Ltd, Delhi, is permitted to capitalize Rs 2,20,000 from general reserve and issue 22,000 bonus shares of Rs 10 each in the proportion of one share for every five equity shares held.

Baroda Industries (P) Ltd, Bombay, has been allowed to capitalize Rs 2 lakhs out of its general reserve and issue fully-paid equity shares of Rs 50 each as bonus shares in the ratio of two for every five held.

The Advance Insurance Co. Ltd, Bombay, is given consent to capitalize Rs 1,17,000 out of its general reserve and issue fully-paid equity shares of Rs 100 each as bonus shares.

Debsons (P) Ltd, Calcutta, has been granted consent to capitalize Rs 65,000 from its general reserve and issue fully-paid bonus shares.

Usha Martin Black (Wire Ropes) Ltd, Calcutta, has been given consent to issue cumulative redeemable preference shares of Rs 100 each of a value of Rs 20 lakhs for cash at par for augmenting its working capital for its expansion.

Sandur Manganese and Iron Ores Ltd, Mysore, is permitted to capitalize Rs 5 lakhs in 9.5 per cent preference shares of Rs 100 each (free of company's tax but subject to deduction of taxes at source at the prescribed rate) for cash at par for financing a pig iron project. This would be allotted to the industrial and Mining Investment Corporation, Luxumburg.

LICENCES AND LETTERS OF INTENT

LICENCES ISSUED

The following licences and letters of intent were issued under the Industries (Development and Regulation) Act, 1951, during the week ended September 9, 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.

Electrical Equipment

M/s. Aluminium Industries Ltd, No. 1, Ceramic Factory Road, Kundara (Kerala) (Kerala): (Capacity on maximum utilisation of Plant)—1. Circuit Breakers, 11 KV—300 Nos; 2. Circuit Breakers 22 KV/33 KV—75 Nos.; 3. Isolating Switches up to and including 33 KV (motor operated type)—100 Nos.; 4. Current transformer 11 KV—900 Nos.; 5. Current Transformers 22 KV/33 KV—225 Nos.; 6. Potential Transformers 11 KV—300 Nos.; 7. Potential Transformers 22 KV, 33 KV—75 Nos. (N.A.).

Plastic Moulded Goods

M/s. East Anglia Plastics (India) Ltd, 23, Camac Street, Calcutta-16. (Dum Dum, Calcutta, West Bengal): 1. Expansion and specialisation of PVC compounds especially for cable industry—648 tons; 2. Plastics sheets, films and foils, Cellulose Acetate, PVC, Polythene, Polystyrene—New Articles (192 tons); 3. Plastics Lamination Cellulose Acetate Polythene, PVC—New Articles (432 Kilometres). (S.E.).

Jute

M/s. Prabartak Jute Mills Ltd, 5, Synagogue Street, Calcutta-1. (Calcutta, W. Bengal): Hessian & Sacking Goods—110 looms for producing 5342 tonnes per annum.

Asbestos Cement

M/s. Shree Digvijay Cement Co. Ltd, Shreeniwas House, Waudby Road, Fort, Bombay-1. (Ranip-Sabarmati, Ahmedabad-5. (Gujarat): Asbestos Cement Products—36,000 tonnes per annum. (S.E.).

LETTERS OF INTENT

Agricultural Machinery

M/s. Industrial & Agricultural Engg. Co. (Mysore) (P) Ltd, 54-55, Silver Jubilee Park Road, Bangalore-2. (Hassan, Mysore): i) Sprinkler Heads—50,000 Nos.; ii) Support Stands for Sprinkler Head—50,000 Nos; iii) Thin Walled G.I. Special Pipes—1,50,000 Units; iv) Accessories and Attachments—25,000 Nos. (N.U.).

Chemicals

M/s. Chowgule & Co. (Hind) Pvt. Ltd, India House, Fort St., Bombay-1. (Maharashtra): Mesulphen—10 tonnes per annum. (N.A.); M/s. Amar Dye-Chem. Ltd, Rang Udyan, Sitaladevi Temple Road, Mahim, Bombay-10. (Maharashtra): Cyanuric Chloride—250 tonnes per annum. (N.A.); M/s. S.H. Kelkar & Co. Pvt. Ltd, Bombay-Agra Road, Muland, Bombay-80 (NB). (Maharashtra): i) Hexchlorophene—240 tonnes per annum, ii) 2, 4, 5 Trichlorophenol—300 tonnes per annum. (N.A.); M/s. Pesticides Ltd, 28, Sayani Road, Bombay-28. (Maharashtra): Parathion—From 250 to 2000 tonnes per annum. (S.E.).

Rubber Goods

M/s. Madras Rubber Factory Limited, 175/1, Mount Road, Madras. (Madras, Madras State): Brake Chamber Diaphragms—3 lakh Nos. per annum. (N.A.).

LICENCES REVOKED OR SURRENDERED

(Information pertains to particular licences only)

M/s. Saran Engineering Company Ltd, Kanpur—Pneumatic Power Hammers; M/s. Premdas Gurparshad, Bombay—PVC Rigid Pipes and High Impact Styrene Sheets; M/s. British India Corporation Ltd, Kanpur—Rubber and Canvas Footwear, Gum Boots, Jungle Boots and Hockey Shoes.

THE CALCUTTA ELECTRIC SUPPLY CORPORATION LIMITED

(Incorporated in England)

Notice is hereby given that the Board of Directors of this Company have declared payment of an Interim Dividend on the Company's Preference Stock for the year ending 31st March 1968 at the rate of £3 per cent less Income Tax at 8s. 3d. in the pound equal to £1.15s. 3d. per cent. Payment will be made on 18th November 1967 to those stockholders whose names are registered in the Company's Stock Register on 31st October, 1967.

Applications for transfers received in this Office before 12 o'clock noon on Tuesday, the 31st October, 1967, will, if otherwise satisfactory, be registered at that date for the purpose of participation in the above dividend.

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BOOKS BRIEFLY

Facts on Fertilisers

Seminar on Cost and Financing of Fertiliser Projects in India 1966: Proceedings; the Fertiliser Association of India, New Delhi; 1967; Price not mentioned.

Reviewed by P. CHATTOPADHYAY

The cost and financing of fertiliser projects in India have been in the public eye for quite some time and in various contexts. A rapid rate of growth in agricultural output, increasing production of fertilisers and enhanced input of fertilisers in our country have gone together in the debate that has gone on for the purpose of streamlining our agriculture. Different factors have impeded the achievement of the desired results. Inadequacy of fertiliser output, the high cost of fertilisers and the lack of adequate knowledge about the techniques of application of fertilisers for recouping lost soil fertility are some of the more important questions highlighted in this debate. It is in this background that the proceedings of the seminar organised by the Fertiliser Association of India should be considered a welcome addition to the literature on the subject. More so, because official urgings and stress on the need for increasing fertiliser inputs and the relative indifference of the cultivators have gone almost parallel to each other.

The knowledgeability of cultivators about scientific application of fertilisers, particularly against their indiscriminate use, can at best be gradually increased, taking into view the existing state of farm education in our country. It is disconcerting therefore to note that already there are signs of increasing salination and alkalisation of soil in different parts of the country. Another factor worth mentioning here is that the application of fertiliser is rather ineffective in periods of drought. Unfortunately, this did not receive much attention in the seminar.

Lopsided Emphasis

The papers and the discussion in the seminar were more concerned with the techno-managerial and techno-economic questions of the fertiliser production and distribution. Twenty-four out of a total number of thirty-four papers presented in the seminar related to the question of cost reduction in fertiliser manufacture and fertiliser distribution and marketing. Six other papers related to financing of fertiliser projects. Three papers were on the trend studies related to different countries. The lopsided emphasis on cost reduction is, however, understandable and in this section various aspects of costs and comparative costs arising from different technologies have been competently discussed in detail with a number of revealing observations. The treatment of the question of financing of fertiliser projects is, however, in the nature of a non-technical, general overview. Several tricky questions involved in financing fertiliser projects and the techniques of appraisal and the assessment of profitability should not have been ignored. The coverage of this important aspect appears inadequate.

The composite phenomenon of cost and its reduction underlined by the seminar should provide a starting point to the authorities concerned with this problem. There are three aspects for consideration in this regard. First is the introduction of advanced technology and the manifest economies arising thereof in materials, labour and overheads per unit of production. The second aspect relates to reduction of unit cost within the existing conditions. While the first aspect has been dealt with in detail, the second is given only a cursory treatment. It seems that a major preoccupation of the seminar was with the technological aspects of the cost structure and not the efficiency aspect which could bring about a cost reduction per unit of various types of fertilisers. The third aspect, con-

cerned with control of cost, does not find any mention at all. This is a pity particularly because the seminar provided an opportunity of putting forward the industry's case and of bringing to the fore all the inhibiting factors, particularly the external ones, against better functioning of the industry in our country. Technological backwardness is only one of the various aspects of the question.

A feature noticed in these papers is that most of the intimate details of techno-economics of fertiliser manufacture have been given by foreign experts. The only paper among the indigenous contributions that deals with possibilities of cost reduction on a knowledgeable basis is of Mr S. Hussain Zaheer and not from the industry as such. The experience of working of our fertiliser industry has been presented rather poorly.

Distorted Look

Our fertiliser industry presents a picture in which commercial considerations merge with non-commercial ones in coaxing the cultivator to use more and more fertilisers for increasing output. In the circumstances, the questions of building up strong internal finances, debt-equity distribution in the capital structure and the pricing of fertilisers acquire a distorted look, in spite of the emergence of the private sector fertiliser plants. Obsession with import substitution in the conditions of acute foreign exchange shortage has resulted in indifference being shown to the techniques of investment appraisal such as the discounted cash flow. On the other hand, an undesirable preoccupation with keeping the ratio of debt and equity to 1:1, has not done justice to the plants during the gestation period, with interest charges adding to the capital cost of the project. The point made by Mr O. K. Ghosh that this ratio is particularly suited to the fertiliser projects requires substantiation. Depending on the terms of the loan, this ratio may vary from 0.25:1 to 2:1. Deliberate pegging of such ratio at 1:1 has distorted the capital structure in many public sector enterprises.

Professor Alan S. Manne's paper on Size, Location and Time-Phasing is a serious discussion, pointing to the type of analysis that should go into the establishment of fertiliser projects. His model not only brings up-to-date the analysis in his book, 'Investments for Capacity Expansion: Size, Location and Time-Phasing' (1966), but also pinpoints the various issues that should be considered closely and in conjunction. For the new model indicated by Mr Manne, on which work is reportedly going on, it would perhaps be worth while to examine the relationship between fertiliser input and output of different crops; the constraints offered by soil types, climate, rainfall and irrigation facilities; the need-based fertiliser-mix and the productional economies; efficiency constraint and scale economies with particular reference to the synergy effect and nature of unit cost of fertilisers—whether fixed or variable—with reference to capacity utilisation. In an operational model, co-ordination of all these (rather distantly related) factors appears necessary and may be possible through a computer.

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RECORDS AND STATISTICS

Wholesale Prices

WHOLESALE PRICES as measured by the official index (with the year ended March 1953 as 100) declined by 0.4 per cent to 219.5 during August 1967 as compared to 220.4 for the previous month. In August 1967 the fall of 0.4 per cent in the index was caused by a decline in 'fuel, power, light and lubricants' by 0.4 per cent to 177.1, 'industrial raw materials' by 6.2 per cent to 217.0 and 'manufactures' by 0.7 per cent to 165.2, notwithstanding an increase in the 'food articles' by 1.3 per cent to 257.6 and 'liquor and tobacco' by 0.8 per cent to 133.5, as compared to the preceding month.

Food Articles

The sub-group index for 'cereals' increased by 2.8 per cent to 231.3 due to a rise in the prices of rice and ragi. The prices of wheat, barley and maize, however, moved down. At this level, the index for cereals was higher by 35.7 per cent when compared with that of year ago. Lower prices of gram, arhar

and mung brought down the index for 'pulses' sub-group by 1.5 per cent to 289.1, while the prices of masur and urad registered a rise. The index for 'fruits and vegetables' sub-group rose by 4.5 per cent to 238.5 due to an increase in the prices of potatoes, onions and bananas notwithstanding a fall in the prices of cashewnuts. Owing to an increase in the prices of milk the index for 'milk and ghee' sub-group advanced by 4.4 per cent to 232.4. The prices of ghee, however, declined. A fall in the prices of all the edible oils (except coconut oil which registered a rise) brought down the index of 'edible oils' by 6.4 per cent to 283.8. The sub-group index for 'fish, eggs and meat' rose by 3.3 per cent to 242.8 as against 235.0 for the earlier month, owing to an increase in the prices of fish, eggs and meat. A rise in the prices of gur was responsible for an increase in the index of 'sugar and gur' sub-group by 3.0 per cent to 387.0. Lower prices of black pepper, chillies, cloves, cardamoms, betelnuts and salt brought down the index of 'other food articles' by 1.4 per cent to 240.0, as compared to

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

(Base : 1952-53=100)

Group and Sub-group	August 1967	July 1967	August 1966	Increase (+) or decrease (—) in August 1967 as com- pared with July 1967.	Increase (+) or decrease (—) in August 1967 as com- pared with August 1966.
Food Articles	257.6	254.3	199.2	+1.3	+29.3
Cereals	231.3	224.9	170.4	+2.8	+35.7
Pulses	289.1	293.5	185.1	—1.5	+56.2
Fruits and vegetables	238.5	228.3	211.4	+4.5	+12.8
Edible oils	283.8	303.2	325.4	—6.4	—12.8
Milk and ghee	232.4	222.7	186.0	+4.4	+24.9
Fish, Eggs and Meat	242.8	235.0	245.4	+3.3	— 1.1
Sugar and gur	387.0	375.6	181.8	+3.0	+112.9
Others	240.0	243.4	221.3	—1.4	+ 8.5
Liquor and tobacco	133.5	132.4	129.9	+0.8	+ 2.8
Tobacco	128.4	127.2	125.4	+0.9	+ 2.4
Fuel, power, light and lubricants	177.1	187.8	170.8	—0.4	+ 3.7
Industrial raw materials	217.0	231.4	238.1	—6.2	— 8.9
Fibres	170.8	175.2	189.5	—2.5	—14.4
Oilseeds	289.3	321.7	318.2	—10.1	— 9.1
Minerals	151.1	149.3	149.4	+1.2	+ 1.1
Others	173.2	174.2	166.4	—0.6	+ 4.1
Manufactures	165.2	166.3	161.5	—0.7	+ 2.3
Intermediate products	215.4	217.7	202.2	—1.1	+ 6.5
Finished products	157.0	157.9	154.8	—0.6	+ 1.4
Textiles	150.2	150.7	151.0	—0.3	— 0.5
Cotton manufactures	156.8	156.7	147.6	+0.1	+ 6.2
Jute manufactures	124.8	127.4	152.0	—2.0	—17.9
Woollen manufactures	204.2	204.2	199.6	—	+ 2.3
Silk and rayon manufactures	159.2	158.7	157.6	+0.3	+ 1.0
Metal products	211.1	211.1	190.1	—	+11.0
Chemicals	153.0	152.8	145.1	+0.1	+ 6.9
Oilcakes	279.8	292.4	279.0	—4.3	+ 0.3
Machinery and Transport equipment	154.3	154.4	150.0	—0.1	+ 2.9
Others	135.1	135.8	132.2	—0.5	+ 2.2
All commodities	219.5	220.4	192.0	—0.4	+14.3

Source : Economic Adviser to the Government of India.

243.4 for the previous month. The prices of tea, coffee and turmeric, however, increased.

Tobacco

The index for 'tobacco' advanced by 0.9 per cent to 128.4 owing to a rise in the prices of tobacco raw.

Fuel, power, light and lubricants

Due to a fall in the prices of castor oil the index for this group receded by 0.4 per cent to 177.1.

Industrial raw materials

A decline in the prices of all the fibres brought down the index of 'fibres' sub-group by 2.5 per cent to 170.8. The sub-group index for 'oilseeds' showed a sharp fall of 10.1 per cent to 289.3 as compared to 321.7 for July 1967; the prices of groundnuts, linseed, gingellyseed, rapeseed and cottonseed declined while the prices of castorseed and copra increased. The index for 'minerals' sub-group worked out to 151.1, as against 149.3 for the earlier month. The prices of tanning materials, rubber and lac fell and consequently the index of 'other industrial raw materials' declined by 0.6 per cent to 173.2.

Intermediate products

Lower prices of linseed oil, rayon yarn, zinc, copper, tin

and lead brought down the index for 'intermediate products' by 1.1 per cent to 215.4. The prices of leather and coir yarn, however, moved up.

Finished products

The sub-group index for 'textiles' receded by 0.3 per cent to 150.2 owing to lower prices of jute manufactures (—2.1 per cent to 124.8). The prices of cotton manufactures (+0.1 per cent to 156.8) and silk and rayon manufactures (+0.3 per cent to 159.2) however increased. The prices of cotton cloth (mills) rose fractionally, while there was a fall in the price of handloom cloth. The sub-group index for 'chemicals' worked out to 153.0 as against 152.8 for the preceding month. The prices of general chemicals showed a rise while those of paints declined. The sub-group index for 'oilcakes' moved down by 4.3 per cent to 279.8 as against 292.4 for the earlier month. The prices of bobbins, cycles and vehicles declined slightly and consequently the index for 'machinery and transport equipment' sub-group showed a nominal fall from 154.4 to 154.3. Among the 'other finished products' there was an increase in the prices of rubber shoes, which was more than offset by a decrease in the prices of leather shoes and bricks and tiles, with the result that the index for 'other finished products' declined by 0.5 per cent to 135.1. The changes in the various sub-groups brought down the index of finished products as a whole by 0.6 per cent.

INDEX NUMBERS OF INDUSTRIAL PRODUCTION

(Base: 1956=100)

	1966					1967							
	January	February	March	April	May	June	January	February	March	April	May	June	
General Index (crude)	...	186.5	189.6	196.5	189.6	188.2	189.6	199.8	184.5	199.2	183.8	192.3	192.0
Mining and quarrying	...	185.8	194.4	203.7	194.0	192.1	183.4	194.2	190.0	206.8	197.0	206.0	188.9
Coal	...	171.2	178.2	187.8	178.0	176.4	170.8	181.6	177.3	192.9	183.5	191.7	176.8
Manufacturing	...	180.1	183.5	190.0	183.0	181.2	183.4	193.0	176.6	191.5	174.6	182.6	183.8
Sugar	...	404.3	384.3	383.1	287.6	115.1	23.6	361.1	258.3	179.9	65.5	14.0	3.4
Manufacture of textiles:	...	116.0	122.2	116.2	125.7	120.8	128.8	119.5	112.3	125.3	118.2	126.6	125.1
Cotton textiles	...	109.1	116.5	107.3	120.4	119.6	123.7	112.3	102.9	117.7	111.5	119.8	118.5
Woollen textiles	...	89.2	87.4	87.9	92.5	112.4	125.6	96.3	92.0	118.7	115.2	122.5	122.8
Silk and synthetic fibres	...	213.9	208.6	229.5	232.3	212.1	221.5	229.1	228.6	219.5	207.5	220.6	219.6
Jute textiles	...	109.2	116.0	113.5	107.0	81.9	109.8	107.4	109.2	120.3	110.5	117.1	113.9
Paper and paper boards	...	266.8	275.4	298.3	269.6	274.6	272.2	276.8	245.0	289.9	281.5	289.8	302.3
Leather and fur products	...	113.3	127.1	144.9	147.1	131.5	145.6	125.5	128.0	144.8	140.6	143.5	141.2
Rubber products	...	194.7	214.3	217.6	193.9	176.0	196.2	230.8	239.1	234.0	200.4	213.9	235.6
Chemical and chemical products	...	226.1	224.2	238.3	236.9	254.4	263.2	264.8	258.1	294.0	268.1	272.9	274.0
Basic industrial chemicals	...	403.8	385.5	412.9	395.5	412.6	402.2	422.5	404.5	448.2	395.3	417.8	388.9
Fertilizers	...	248.0	226.0	267.2	253.2	372.9	431.7	368.0	374.8	505.3	450.2	422.9	498.3
Petroleum products	...	277.5	261.2	267.7	267.7	281.2	275.4	335.1	291.3	360.1	327.2	350.5	348.0
Cement	...	227.7	212.6	230.2	213.9	207.9	204.3	241.2	193.1	238.9	223.6	242.4	228.4
Basic metals	...	323.6	305.1	344.9	299.0	312.2	305.3	349.7	313.5	342.8	316.4	302.7	268.9
Pig iron	...	384.3	354.0	379.1	356.4	358.4	341.9	380.0	335.3	378.9	355.4	351.2	328.6
Finished steel	...	344.8	313.9	387.2	324.9	324.1	327.8	329.1	318.1	356.1	292.2	210.4	201.9
Aluminium manufacturing	...	486.2	424.0	457.4	409.8	536.0	473.5	645.5	602.9	677.0	625.0	652.7	447.0
Metal products	...	226.9	223.5	232.1	232.0	203.6	226.9	218.0	214.9	212.9	203.9	209.7	207.4
Machinery except electrical	...	471.9	514.2	610.9	526.6	539.7	552.8	549.8	544.7	642.6	474.6	523.2	508.4
Electrical machinery	...	294.1	313.0	333.9	327.2	349.7	338.6	406.7	381.9	395.7	370.3	378.0	384.5
Transport equipment	...	168.7	203.3	233.1	155.5	167.7	182.9	211.4	189.8	221.8	158.2	179.9	160.8
Automobiles	...	151.0	234.5	320.4	155.6	204.5	217.6	267.0	252.2	287.3	179.7	223.8	173.5
Motor cycles and scooters	...	543.6	920.1	974.5	1,034.6	723.3	1,109.3	966.7	897.5	1,110.9	1,147.9	897.7	1,116.1
Bicycles (complete)	...	241.3	248.1	261.1	245.5	229.3	249.6	271.6	267.9	299.2	257.5	261.1	265.5
Electricity	...	340.4	326.6	338.7	339.8	347.5	353.8	376.7	363.4	369.1	378.4	398.2	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*	4,955.98	3,197.22	1,758.76	1,711.34	47.42	+426.59
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	4,825.03	3,157.53	1,667.50	1,632.16	35.34	+80.11
March	4,955.98	3,197.22	1,758.76	1,711.34	47.42	+130.95
April	4,970.42	3,237.32	1,733.10	1,696.65	36.46	+14.44
May	4,964.05	3,246.34	1,717.72	1,687.36	30.35	—6.37
June	4,967.88	3,211.08	1,756.80	1,732.43	24.37	+3.83
July	4,898.08	3,135.54	1,762.54	1,739.37	23.17	—69.80

* Provisional.

Source: Reserve Bank of India.

RESERVE BANK OF INDIA

(Rs. crores)

	October 6, 1967	A week ago	A month ago	A year ago
Issue Department				
Notes held in Banking Department	16.17	19.20	19.05	7.40
Notes in circulation	2984.58	2894.70	2954.52	2766.76
Total notes issued	3000.75	2913.89	2973.57	2774.16
Gold coin and bullion	115.89	115.89	115.89	115.89
Foreign securities	166.42	166.42	166.42	176.42
Rupee coin	78.49	81.67	76.34	91.93
Government of India rupee securities	2639.95	2549.92	2614.92	2389.92
Banking Department				
Deposits of central government	58.67	101.06	53.06	80.71
Deposits of state government	4.53	7.76	18.26	5.95
Deposits of banks	141.51	143.48	136.50	123.64
Other deposits	262.45	262.24	272.27	256.39
Other liabilities	338.63	341.31	337.43	309.70
Total liabilities or assets	805.79	855.84	817.52	776.38
Notes and coins	16.24	19.31	19.11	7.47
Balances held abroad	19.03	11.40	20.99	19.78
Loans and advances to governments	109.67	55.15	48.54	56.77
Other loans and advances	201.45	200.63	202.72	176.03
Bills purchased and discounted	315.34	362.23	296.13	300.01
Investments	108.96	172.74	198.18	183.60
Other assets	35.10	34.40	31.85	32.72

SCHEDULED COMMERCIAL BANKS

(Rs. crores)

	October 6, 1967	A week ago	A month ago	A year ago
1. Demand deposits*	1695.17	1695.14	1689.12	1499.06
2. Time deposits*	1935.43	1933.27	1917.89	1755.76
3. Aggregate deposits*	3630.61	3628.41	3607.01	3254.83
4. Cash	88.91	86.53	90.78	75.38
5. Balances with Reserve Bank	131.81	130.12	136.51	115.72
6. Cash and balances with Reserve Bank	220.72	216.64	227.29	191.10
7. Borrowings from Reserve Bank	3.28	2.34	7.35	0.87
8. Investments in government securities	1131.76	1136.09	1072.27	1077.56
9. Advances	2208.22	2199.56	2237.04	1918.85
10. Bills purchased and discounted	339.71	333.62	327.19	324.79
Inland bills	221.56	215.84	211.70	212.65
Foreign bills	118.15	117.78	115.49	112.14
11. Total bank credit	2547.92	2533.18	2564.23	2243.63
12. Percentage of:				
(6) to (3)	6.08	5.97	6.30	5.87
(8) to (3)	31.17	31.31	29.73	33.11
(11) to (3)	70.18	69.82	71.09	68.93

* Excluding inter-bank borrowings.

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	165	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	569	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	620	900	846	361	696	318	291
July	685	715	286	...	918	856	361	703	326	294
August	689	719	292	...	933	851	...	697	...	...
September	...	...	297	...	...	...	...	694	...	...

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

CONSUMER PRICE INDEX NUMBERS FOR URBAN NON-MANUAL EMPLOYEES

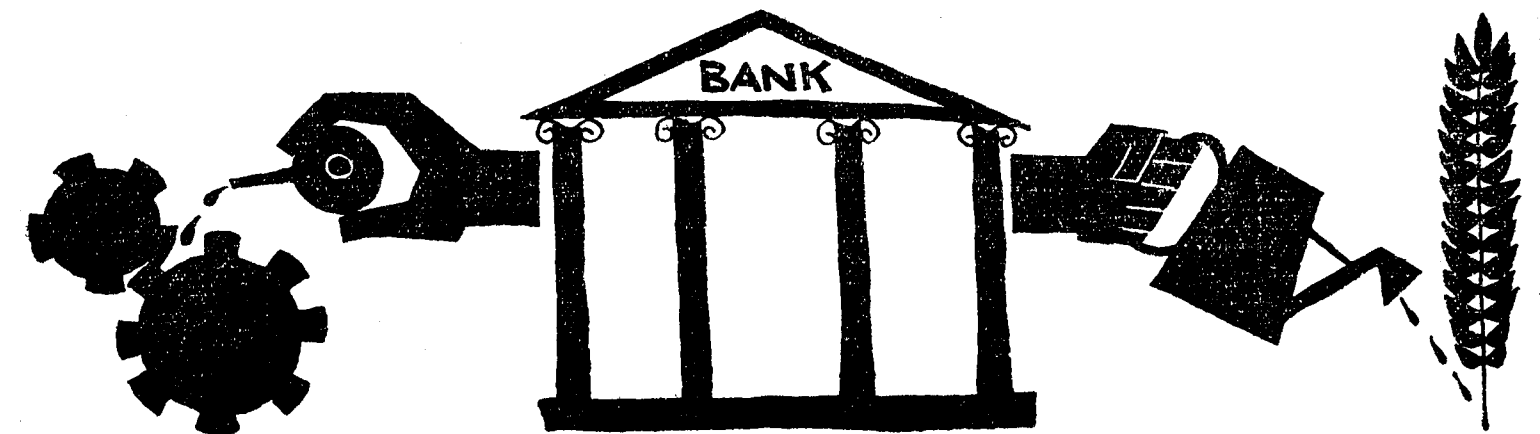
(Base: 1960=100)

Centre	1960-61*	1961-62	1962-63	1963-64	1964-65	1965-66	1966-67	1967			
								January	February	March	April
All-India	100	104	108	113	124	132	146	149	150	151	152
Bombay	99	103	107	114	125	132	142	143	143	144	146
Delhi-New. Delhi	100	105	111	116	125	131	142	144	146	148	150
Calcutta	98	102	107	112	118	126	139	141	141	142	144
Madras	103	106	111	116	125	133	147	154	153	152	151
Hyderabad-Secunderabad	101	104	107	111	122	133	147	148	148	149	150
Bangalore	102	106	111	115	124	133	145	148	149	150	150
Lucknow	100	102	105	110	123	132	146	150	153	156	154
Ahmedabad	100	103	105	112	125	131	146	153	154	154	157
Jaipur	101	105	108	115	126	133	150	153	155	155	157
Patna	99	102	106	111	124	139	160	167	171	168	170
Srinagar	105	105	111	120	128	134	143	151	153	153	155
Trivandrum	103	105	110	115	122	131	146	153	151	149	149
Cuttack-Bhubaneswar	100	107	113	122	135	142	154	156	155	156	158
Bhopal	102	109	111	115	128	133	144	146	148	150	158
Chandigarh	101	105	108	114	124	129	143	146	150	152	152
Shillong	101	103	107	114	121	123	134	138	137	139	143

* Relates to the period January to March 1961.

Source: Central Statistical Organisation.

WHAT IS SOCIAL CONTROL OF BANKS?



AN EASTERN ECONOMIST SUPPLEMENT

Confusion Worse Confounded

AT JABALPUR this week the All-India Congress Committee is expected to review the 10-point programme approved by it in May this year. The ministerial wing of the party will report on the steps taken by it to implement this programme, which listed "social control" of banks as one of its aims. For some unknown reasons the real significance of the words "social control" has not been explained so far.

The Deputy Prime Minister and Minister for Finance, Mr Morarji Desai, had a couple of months ago asked an official of the Reserve Bank of India to look into the working of banks and submit a report thereon. The expert is stated to have already presented his report to Mr Desai. Although the document has not been made public as yet, from whatever has appeared in the newspapers, it is clear that the suggestions made by the expert are not of a drastic nature. As the adoption of "social control" as objective rules out nationalisation of banks altogether, the expert, it is reported, has suggested the establishment of a credit council so as to encourage the flow of funds of banks into agriculture and small-scale industries. In the recent weeks, the meaning of "social control" has, therefore, come to be associated with increased flow of bank funds to agriculture and small-scale industries and greater vigilance over the use of these funds so that they may not be utilised for any anti-social purpose. This is the popular interpretation of this expression in the absence of an official version.

The scheduled banks have conceded that they have not given so far as much attention to agriculture and small-scale industries as to large-scale industry and business. Banks in this country have worked efficiently because they have tended to operate on the conservative policy of security of funds held in trust by them from their depositors. They are not gambling institutions; they dare not invest funds in ventures which have a high risk element. The "social control thesis" of the ruling party at the centre seems to imply increased flow of bank funds into such hazardous sectors as agriculture and small-scale industries. The experience of the co-operative credit system in the agricultural sector has not been very happy. The Reserve Bank as well as the Government of India are fully aware of the losses which have been incurred by the co-opera-

tive credit institutions in their efforts to assist the agriculturists. If scheduled banks are asked to operate through the co-operative credit system, it is something which is understandable. To ask scheduled banks to advance funds to agriculturists who have, on the face of it, no capacity to repay loans seems asking for the liquidation of these banking institutions in this country. That is perhaps not the intention of the government. It would like banks to invest funds in agriculture and small-scale industries but in a manner that the funds sunk there are not lost. This is a difficult proposition. Banks may have to throw sound banking principles to the winds in order to satisfy such whims of the politicians. To avoid nationalisation of banks, they no doubt like the slogan of "social control" as this is indeed a lesser evil. It must not, however, be forgotten that any scheme which makes banks to invest in hazardous branches of agriculture and industry is likely to shake the faith of the people in them. Banks today must have the courage to stand up and tell the government frankly that they would invest their funds purely in accordance with sound banking principles; they would certainly like to extend greater assistance to small-scale industries and agriculture, but they would not like to ignore the basic banking tenets in this regard. If they do the latter, they are bound to create a confusion in the monetary circles in the country.

As we go to the press, the social control of banks has become a live issue. It is obvious that the various groups in the Congress party are getting ready to press their points of view at Jabalpur. The most intriguing performance is that of Mr Chandrashekhar, General Secretary of the Congress parliamentary party, who has released a report of four "leading" economists, recommending nationalisation of banks. These "wise" professors were picked from Chandigarh, Lucknow and Delhi. The only persons who are likely to profit from this report are the "learned" professors themselves, because all of them seem to be unknown prodigies in this science and have sought cheap publicity by producing a rabbit out of a hat. They have in their 122-page report made confusion worse confounded. While the public was trying to understand the implications of social control of banks, they have gone back to the demand of nation-

alisation which had been ruled out by the ruling party even before the fourth general election.

Misinformation propaganda about the working of banks in this country has taken a number of forms, one of them being to discredit the bank managements by saying that the bank resources are used for the benefit of directors and their concerns. Figures are now available to take the bottom out of this mischievous publicity. The balance sheets of 20 leading private sector banks for the year ended December 31, 1966, show that out of total advances of Rs 1,480 crores, just 10 per cent or about Rs 150 crores were advanced to concerns with whom the bank directors were associated. It will not be possible to completely eliminate this small percentage advanced to bank directors even after the so-called social control of banks. What is usually forgotten is that the directors of banks do not have any active interest in the concerns to which advances are made. They have no more than nominal interest in them and, therefore, it is only technically true to say that the loans of this order are made to the directors or to concerns in which they are interested.

Paucity of Talent

It might be asked why the bank directors who are interested in other businesses do not disassociate themselves from banking organisations. This is indeed a question which is asked by a large number of persons who have no understanding either of the banking industry in this country or the corporate sector as such. We do not have as yet a large number of talented persons who combine in themselves both the managerial and entrepreneurial skills. Bank directors are known to be shrewd people in the handling of finance and all industrial managements wish to procure the assistance of successful bankers in running their enterprises. It is because of the technical guidance provided by the bankers that they are in great demand in industrial and business concerns.

The failure of agriculture during the past two agricultural years has made us search for the reasons for the distress of such a high order. A number of reasons have been put forward and one of them is that scheduled banks have hitherto kept away from providing finance to agriculture. Those who lay this charge at the door of the banking industry show complete ignorance of the basic banking principles. The element of uncertainty in agricultural crops is large. The peasants may or may not be able to return the loans advanced by the banks. The bankers however know fully well that the depositors have loaned their funds to the banks in trust knowing that they would use them in a judicious manner. Once it becomes known that the bankers are also becoming speculators and are putting funds in hazardous businesses such as agriculture, it is certain that the depositors would shy away from them. This task of providing finance to agriculture has rightly been assigned hitherto to the co-operative credit system which has borne the full brunt of the uncertainty of the agricultural sector. The working of the co-operative credit system has shown that the farmers are not able to honour their commitments. The overdues and the heavy bad debts continue to accumulate year after year. We hope that the Government of India does not want the banking industry in this country to fall to pieces in the same way as the co-operative credit system has.

An interesting sidelight to this issue is that the Reserve Bank in its various recent directives has asked scheduled banks not to make clean advances. The loans which banks will be called upon to make to the farmers will be nothing short of clean advances—a negation of the policy laid down by the Reserve Bank.

It is however wrong to say that banks have ignored the agricultural sector completely. In fact, as on March 31, 1966, banks had advanced no less than Rs 55 crores to

plantations of tea, coffee, cashew, rubber, tobacco, sugarcane, etc. This may not be a large sum of money but it certainly goes a long way in assisting these cash crops.

Will it be true to say that agriculture in this country has failed in the past two years simply because banks did not come forward with liberal finance to assist agriculture? As stated above, the task of providing finance to agriculture has been assigned to the co-operative credit system. Even the State Bank of India, a public sector institution, has recognised this fact. Mr B. Venkatappiah, Chairman of the State Bank of India, said in the last annual general meeting of the bank that in the matter of credit for production in the rural areas, the contribution of the State Bank had been small. He, however, said that it had been kept at a low level deliberately since the main role in this connection was that of the co-operative banks as distinguished from commercial banks. Thus it is clear that those who have charged banks with neglecting the agricultural sector have been uncharitable. While there is considerable confusion in various sectors of the economy, the banking industry has continued to operate in a confident manner. This confidence will be shattered if government forces banks to bring about unbusinesslike changes in its working. The best arrangement would be to let banks operate as they are today. Let a healthy competition develop between the public and the private sector banks. Let there be a reduction in controls over the operations of the banks. The powers which have been vested in the Reserve Bank so far are large enough to interfere in the working of banks if they go against the official dictates. We hope that wiser counsels will prevail at Jabalpur and in the words of Mr S. N. Mishra, deputy leader of the Congress parliamentary party, the "pseudo-radicals will not be allowed to ruin the economy."

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Social Control: A Banker's View

A. G. PAI

THE CONTROVERSIAL issue of 'social control of banks' is before the public for quite some time. The underlying objectives behind the demand for social control have been discussed almost threadbare.

The protagonists of the idea of social control have an apparently simple case. According to them, banks have done nothing for the economic development of the country. They have only helped big industrialists to grow bigger and more powerful. They have not financed essential activities but have lent support to anti-social activities such as hoarding and speculation. The banks, according to them, have neglected agriculture and have shown little concern for the small industry sector. How simple and forceful! In a socialist pattern, they would have us believe, no other alternative exists but to nationalise such an anti-social sector!

But whatever the political merits of such a version, it is too simple to be true. No man who is capable of taking a balanced view of things can subscribe to such a highly exaggerated version of the facts. I am confident that even the authorities of the public sector banks will give a hopeful picture regarding the achievements and shortcomings of the private banking sector. An informed rival's judgement is certainly to be preferred to that of an ill-informed politician.

One Step Ahead

Let me state frankly that the banks are fully agreeable to the objectives of the so-called programme of 'social control' of banks. Indeed, without waiting for official directives, banks have already made a beginning in that direction.

For financing agriculture, banks have decided to form a separate finance corporation on a consortium basis. Besides, they have also decided to make a beginning in undertaking direct financing of agricultural operations. Similarly, in the sphere of finance for the small-scale industries, the banks have expressed keen desire to step up assistance.

I must also make it clear that the banks cannot be taken to task for their failure to make significant contribution to the financing of these sectors in the past. For one thing, nobody, including the Reserve Bank, expected the banks in the past to go all out for meeting the credit needs of these sectors irrespective of 'security' consideration. Instead, the severe restraints imposed by the Reserve Bank on clean advances have, if anything, served to strengthen the banks' bias for security in the sanctioning of loans. Similarly, until recently, even the Governor of the Reserve Bank was of the opinion that the ideal scheme of rural finance would be for banks to make available finance through the co-operative agencies by subscribing to their debentures. Therefore, the failure of the banks to finance these sectors so far cannot be taken as any default on their part as it was in accordance with the prevalent norms of proper banking policies.

The most important point to be borne in mind is that the Reserve Bank has comprehensive control over the banking system. Whenever the Reserve Bank has given specific policy guidelines, even as a matter of informal advice, the banks have wholeheartedly co-operated by adhering to the spirit of these directives. To aver that the control of the Reserve Bank is not effective or that the banks have systematically evaded such directives is to say the least, unfair to the Reserve Bank as well as to the commercial banks. It has been stressed time and again that in their lending operations the banks have always kept in mind the safety of depositor's funds as a consideration of primary importance. Even the Reserve Bank's approach at regulation and inspection of commercial banks was all along

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inspired by the same objectives. Can this policy be regarded as one of excessive caution?

It must be realised that in our relatively underdeveloped country, where the task of mobilising deposits is urgent and the banking habit is not yet well developed among all sections of the community, it is of the utmost importance to build up public confidence in the stability of banks and safety of depositors' funds. When it is realised that the Reserve Bank had to introduce the scheme of deposit insurance for banks as late as 1962, 'the safety first' approach in lending adopted by our banks can hardly be criticised as one of 'excessive' caution. I would even say that it is the image of safety and stability which our banks have built up even at the risk of being dubbed conservative, which has been the most important factor inspiring public confidence in them. And this is an essential prerequisite for mobilising savings and promoting banking habit.

It is one thing to suggest that our banking system today is strong enough to undertake additional responsibilities of financing agriculture and small-scale industries. It is a totally different thing to suggest that banks should be brought under social control because they have failed to do so in the past.

Private commercial banks have no guilty conscience in regard to their conservative policy in the past. Whatever the political compulsions behind the demand for social control on banks, the banking system should not be made the scapegoat for all the economic problems facing the country.

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Banking and Social Obligations

HARIDAS K. SWALI

Mr Haridas K. Swali is Deputy Manager of Dena Bank Ltd.

"EVEN IF you nationalise everything you have not a socialist society", testified the late Earl Attlee, former British Prime Minister. Lord Attlee said: "We talked a great deal of theory but we did not know very much about practice.....None of us is certain whether we have the right setup in the nationalised industries." These are the words to remember when emotion and sentiment are running high on slogans such as 'now or never' on the 10-point programme of the AICC and when the common man continues to be fed on promises of a hopeful life after bank nationalisation. Attempts are being made to urge nationalisation of banks as a panacea for many of our ills without realising that mere change in the ownership of the means of production is no guarantee of the socialist millennium. A leading socialist—as the late Hugh Gaitskell—had said: "I disagree with the view that nationalisation or even public ownership is the be all and end all, the ultimate first principle and aim of socialism". Protagonists of nationalisation in India may well heed this warning. Bank nationalisation, if resorted to, will prove a greater political blunder than devaluation. It can neither cure our economic ills nor can it hasten the dawn of prosperity which is eluding our efforts.

I do not, therefore, propose to dwell at any length on the pros and cons of bank nationalisation. Let us instead trace the evolution of banking and see how it has changed with the changing times. There was a time when banking in India was predominantly controlled by foreign banks. There was a time when commerce and personal advances claimed the bulk of banks' advances. In 1951, when the first Plan had just begun, the share of industry and commerce in the banks' advances was almost equal with 34 per cent and 36 per cent, respectively. At the end of March 1966, the share of industry had gone up to 64.3 per cent and that of commerce declined to 24.4 per cent. Personal and professional advances aggregated a bare five per cent. There was a time when banks were interested only in clients who brought money into the bank by way of deposits of gold and cash. Cartoonists and satirists had for long depicted bankers as conservatively attired elderly gentlemen with hard and unsympathetic eyes on those who sought a loan. Today they are after new ideas and innovations to draw the idle savings of the community to banks' chests and seeking clients and customers who would put these resources to productive purposes. There was a time when banks used to confine their operations to metropolitan cities and towns. Today they set out to new regions, into the interiors of the country, the semi-urban towns and villages with a view to mobilising the savings of the rural community.

Efficient System

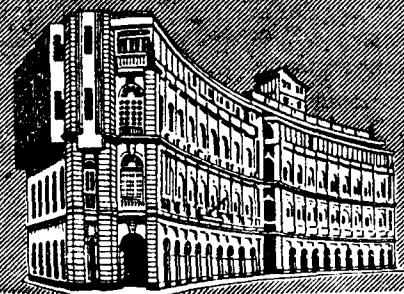
Banking in India has never been static. Notwithstanding many difficulties and prejudices prevailing in the pre-Independence days owing to the attitude of the alien rulers and notwithstanding the atmosphere of suspense and uncertainty in the post-Independence period, it goes to the credit of Indian banks that they were able to build up a very efficient banking system. Indian banking has admirably served the nation's task of rapid industrialisation and greater economic growth by contributing its full share in the implementation of the three five-year Plans and has demonstrated its willingness to adapt its policies and improve its working to meet the dynamic needs of the developing economy. The banks have undertaken and pioneered a number of activities which a couple of decades ago no one would have dreamt of as coming within the area of banking. Term loans, investment service, income-tax service, executor and trustee service, safe deposit vault service, hire-purchase advances, minors' savings scheme, personal loans, educational loans, travellers' cheques, mobile banks etc. have all been new

services and schemes introduced by banks in India during this phase of phenomenal growth. Indeed the 15 years from 1951 to 1966 could be called the years of growth for Indian banking. The number of banking offices has gone up from 4,151 in 1951 to 6,636 in 1966. Deposits have increased by more than three and a half times from Rs 908.5 crores to Rs 3378.4 crores. Bank credit has increased by nearly four-fold from Rs 626.9 crores to Rs 2434.2 crores. The ratios of deposits and bank credit to national income rose from nine per cent and 6.3 per cent to 15 per cent and 11 per cent, respectively. The bank employees have increased at an average annual rate of 8,500 and now exceed 155,000. The banks have set up their own training colleges and institutes to provide intensive training to the staff on banking technique, procedures and policies, so that they may fill the growing gap in trained and efficient banking personnel to man the executive and managerial cadres.

New Horizons

While Indian banking has thus every reason to feel proud of its past record in quickening the pace of industrialisation, mobilisation of savings, rapid branch expansion and diversification of its range of services, there are new horizons yet to be reached, new avenues yet to be explored and new goals to be attained. As John W. Gardner, one of the great modern American thinkers, in his most provocative book 'Excellence' has stressed: "In a world that is rocking with change we need more than anything else a high capacity for adjustment to changed circumstances, a capacity for innovation". Frontiers of banking are continually widening. Bank management has to become increasingly aware of its social obligations. Bank executives must recognise that although profit motive is firmly entrenched in banking, they must examine problems and policies from the standpoint of public welfare. Banking industry, more than any other business, is reliant on public goodwill and understanding. Unlike a merchant, the banker has no product to tie him to his customer. He deals in services, yes, but primarily he deals in human values. Because of this, he must cultivate and maintain a much closer relationship with his customers than would be necessary in almost any other line of business. The bankers have to develop a greater sense of social obligation, demonstrate a greater degree of efficiency in operation and exert hard to improve their image in the community, so that instead of being viewed with mistrust and jealousy, they will be recognised as a potent force in promoting rapid economic growth.

Soundness has been accepted as the basic requirement of banking. It is a universal requirement. Quite rightly and legitimately, it means looking after the interests of the depositors, the shareholders and the institution generally. This is only one side. There is the other side—the responsibility that bank management owes to the country and the community at large. This I call the social responsibility of banking and that is to promote the country's economic growth and to contribute to economic welfare. Mobilising the savings of the community, stimulating investment and providing the vital sectors of our economy with the sinews of growth, viz. credit, are the triple essential functions which banks have to perform in order to accelerate economic growth. If banks do these functions well, they would have served the social purpose. Controls exercised on the banking system in order to serve this social purpose.



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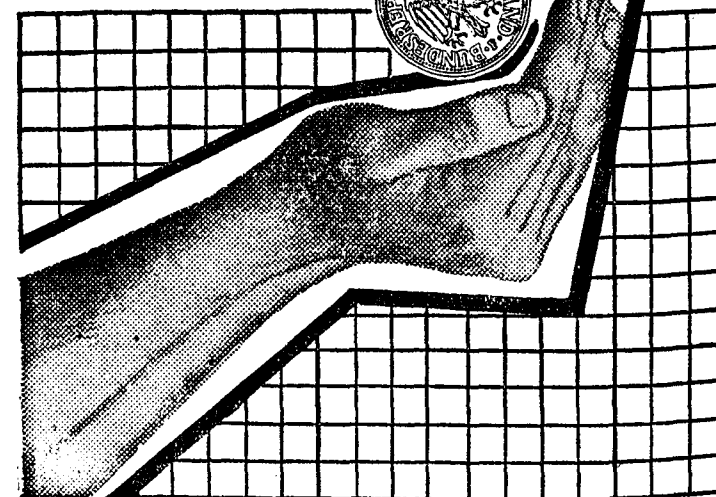
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whether voluntarily accepted or imposed by the state, will only be an aid to achieve the social purpose and not a hindrance. Any step beyond this will ultimately be detrimental to the national objective.

In the modern context, both small-scale industries and large-scale industries have to grow simultaneously. They are not competing sectors but actually supplementary to one another in speeding up economic growth as has been eloquently demonstrated by the experience of Japan. Modern small-scale industries, whose contribution to the total production has exceeded 30 per cent, with quite a number of units producing modern sophisticated goods constitute an essential auxiliary to the heavy industrial base. If they are allowed to languish, either due to scarcity of financial assistance or unfair competition from the established major industries or because of the inadequate importance given to this sector in the plan frame-work, our hopes of building up the superstructure of industrial growth rapidly will be retarded and might well-nigh be nullified. The commercial banks should give due importance to the credit needs of both sectors so as to ensure co-ordinated industrial development. In such an environment alone can we also witness the free flowering of scientific genius and technical know-how within our country, a basic prerequisite for a self-reliant economy. What is needed is that there should be a consensus between business, banks and government over matters vitally affecting national economy. We should have a reappraisal of the traditional canons of good lending, a reformulation of the basic considerations and guiding principles that should govern our lending policies and practices. Purpose, feasibility and competence should be considered as important

as profitability, liquidity and security in judging each proposal for assistance. The primary test will be whether the proposal is consistent with the goals of overall economic policy and whether the persons behind the venture are men of integrity and technical competence.

Helping Agriculture

One of the charges levelled against the banking industry in India is that although agriculture contributes the largest share of our national income and is a vital life-line of the country's economy, not much has been done by banks to finance agricultural production. But such a charge can be levelled against public sector banks too. The agricultural sector was all these years reserved for the co-operative banking system and the entry of commercial banks into areas of their operations was viewed with disfavour by the co-operatives. The government's economic policies and approach were also industry-oriented all these years. The authorities expected commercial banks to finance the growing industrial complex envisaged in the five-year Plans and this the private sector banks did admirably well. The nation itself had neglected the agricultural sector all these years. There was no meaningful, sustained, dynamic drive or plan of action to revamp the agricultural sector. The two years of drought and the spectre of famine in many districts have now opened the eyes of all to the prime necessity of agricultural self-sufficiency. Agriculture has now been elevated to the top in our scales of priority. Let us then jointly apply our minds, talents, resources and institutions to the all-important task of accomplishing an agricultural revolution without trying to make

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this or that agency a scapegoat. Let us look forward and see what has to be done and what could be done.

It is not, as is often assumed, shortage or absence of institutional credit for farmers that is withholding agricultural prosperity. The problem is manifold and has to be tackled on many fronts. We must evolve a comprehensive rural development programme, expedite land reforms so as to consolidate millions of small holdings into farms of viable size, provide incentives to the farmers to increase their production, initiate schemes for insurance of crop and cattle, introduce credit guarantee scheme for financing agricultural production, modernise the techniques of cultivation and give special priority to industries providing agricultural inputs such as fertilizers, seeds, chemicals, agricultural implements, tractors and other equipments. The mode and method of financing agricultural production have to be simplified and perfected so that each bank manager at the rural branch level will be enabled to take on the spot decision in lending funds to farmers. A co-ordinated policy for financing agricultural operations has to be jointly evolved by the agencies and institutions actively interested in the rapid development of our agricultural sector, viz. central and state governments, the Reserve Bank of India, State Bank of India and the commercial banks, land development banks and other co-operatives. Guidelines have to be issued to all the financial agencies setting out precisely the task assigned to each agency so that unhealthy competition and duplication of efforts could be avoided. These are the challenges which should engage the attention of our politicians, administrators, industrialists, and the financing institutions. Let us not get lost in the jungle of ideological dogmas.

I may conclude by recalling the inspiring words of Mr David Rockefeller, President of the Chase Manhattan Bank, from his address at the Mackinsey Foundation lecture series eloquently expounding the importance of creative banking in

today's complex, competitive and rapidly changing economic environment. He said:

"I think of creative banking not as an occasional novel idea or inspirational flash, but as a continuing attitude of mind that constantly seeks more imaginative and effective ways of accommodating the financial requirements of our economy, and of putting money to work for economic growth in the city, across the nation, around the world.

"I think of creative banking as a consciously cultivated disposition to look for the opportunities of progress rather than lament their cost.

"I think of creative banking as a willingness to re-examine all segments of our business in the light of the changing technology of banking; an unwillingness to be fettered by arbitrary rules and routines."

Creative Banking

We should do well to be guided by this concept of creative banking, as the success and survival of any business enterprise is inseparably associated with the acceptance of social and economic responsibilities of business.

The uncertainties created by the talk of nationalisation, social control and the like have already vitiated the atmosphere of confidence, stability and certainty, very vital for a highly delicate system such as banking. We should cry a halt to this controversy and all those who have the interest of the country at heart should devote their time and energy to framing a blueprint for vigorous expansion of Indian banking. A bright future lies before Indian banking. It is for bank management to rise to the occasion and get ready to discharge social obligations with drive, dedication and dynamism, whatever be the challenge of the times ahead.

Banks and Agriculture

IF WE were to go by the circumstantial evidence, the commercial banks must plead guilty for their neglect of agriculture during all these years. Although over the sixteen years between March, 1951, and March, 1966, the bank credit went up fourfold, from Rs. 585 crores to Rs. 2,347 crores, the share of farm credit in the total declined from a little over three per cent to the negligible 0.2 per cent during this period as compared with industrial credit whose share shot up from 33.6 per cent to 64.3 per cent. While admittedly the commercial banks cannot be completely acquitted of the charge against them, they have substantial evidence to prove that they have done for agriculture more than is visible and that they are not at all guilty of wilful negligence.

First of all, it is fallacious to say that bank credit to agriculture constitutes only 0.2 per cent of the total. The Reserve Bank survey of purpose-wise advances by scheduled banks scarcely gives out the whole truth; it takes into account only loans to farmers for food and cash crops. To correct the perspective, we have to take into account both direct and indirect assistance given to agriculture by commercial banks. Such assistance takes the shape of advances for movement and marketing of agricultural produce, advances to plantations, advances to sugar factories and cotton ginning presses, investments in debentures of co-operative institutions, advances to co-operatives, advances against receipts of warehouses, etc. The magnitude of all this assistance is not quite insignificant and its beneficial impact on the agricultural sector cannot be belittled.

Denigrating the Banks

Secondly, the private banking industry is victim of the wisdom which comes after the event. The ballyhoo that commercial banks have all along been ignoring the needs of our agriculture is evidently of a very recent origin. The bogey of bank nationalisation used to be raised from time to time much before the fourth general election was in sight; seldom, however, was the argument advanced then that such a step was desirable because, among other things, banks had failed to finance agriculture. It was only when the Congress election manifesto talked of social control of banks that many a protagonist of bank nationalisation took the cue and, with two bad agricultural years to support their argument, started denigrating commercial banks for the role which they were never called upon to play.

Curiously enough, until as late as July 1963, when the Agricultural Refinance Corporation was set up, the government had never thought of enlisting the co-operation of commercial banks in financing agriculture. No mention in this regard was made even in the third Plan document. The field of agricultural finance had been by and large cordoned off to ensure virtual monopoly for the co-operative sector. The official policy had been, until recently, mainly governed by the recommendations of the All-India Rural Credit Survey Committee 1951-52, which, after careful consideration, had assigned a significant role to the co-operative credit institutions for the purveyance of rural credit. Even as late as in 1960, the V.L. Mehta committee, in its report to the government, had provided no place for commercial banks on the rural credit scene. The role that co-operatives have played in agricultural finance is beyond the purview of this article, but it may be stated here that despite the significant growth in the co-operative credit to agriculture—it has risen from barely Rs 23 crores in 1950-51 to Rs 345 crores in 1965-66—the borrowings of the cultivators from the co-operatives still account for only 25.8 per cent, leaving a large area for the traditional moneylender.

In the circumstances it would have been nothing short of

a trespass if the commercial banks had, on their own, ventured into the field of agricultural finance on a large enough scale. Inevitably, their sphere of operations remained restricted. Nor were they unusually adventurous because they knew that, in its very nature, agricultural finance in our country is an exceedingly risky business proposition. It has been very rightly pointed out in the experts report, excerpts from which have appeared in the newspapers, that "the demand for credit is so heavy that the banks have preferred to concentrate on meeting the needs of a few established borrowers; this is a safe thing to do and also cuts out the bother involved in assessing credit-worthiness of new clients". Inevitably, therefore, the commercial banks have been able to give scant attention to agriculture. They ought, however, to be commended for whatever they have done so far, keeping in view the unhelpful attitude of the Reserve Bank, under whose innumerable directives they have to function.

It is heartening to note that the Government of India has come to appreciate the need for what has been described as a "multi-agency approach". It is of the opinion that while the co-operatives should, in all possible ways, be enabled to expand their credit operations, other credit institutions may also be actively encouraged to enter the field of agricultural finance in an effective manner. The need has been felt in view of the various intensive agricultural development programmes now being implemented in the country which will result in a vast increase in the demand for agricultural credit. Naturally, it expects commercial banks to enter this field in a big way. In consonance with this, the Reserve Bank has already agreed to provide



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	7 years and over		7½	
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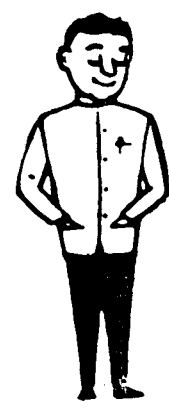
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some incentives to enable scheduled commercial banks to promote schemes of agricultural development. These incentives will be in the form of exemption of borrowings in certain cases for the purpose of computing the liquidity ratio of the lending bank and for maintenance of the statutory level of cash reserves and liquid assets. The Agricultural Refinance Corporation has also come forward with a proposal to provide refinance facilities to scheduled commercial banks for financing certain schemes of agricultural development such as dairy and poultry farming, purchase of agricultural machinery and installation of pump sets for private minor irrigation works.

Self-Supply Scheme

The commercial banks have also shown no lack of enthusiasm. They are already busy devising a mechanism of agricultural finance that will strike a balance between the need for and urgency of such finance and the safety of the funds advanced. Initially, such a scheme will cover only cotton and is expected to go into operation with effect from the 1968 kharif crop. Under what is being called "self-supply scheme for cotton", the commercial banks, in collaboration with cotton mills, will help in the intensive cultivation of a selective area, whose crop will be pledged by the cultivator to the bank and the mill concerned will guarantee repayment of the loan. A large number of the banks are also evincing interest in the direct financing of agricultural programmes, following a decision by the State Bank of India to finance agriculturists directly with short, medium and long-term loans in a few districts of Uttar Pradesh. To facilitate their work, the Government of India has advised the state governments in a circular letter that "in order to enable the State Bank of India and commercial banks to come into the field of agricultural credit in a big way, it will be necessary for the state governments to provide

them with certain facilities such as administrative support for carrying out necessary pre-investment survey, technical assistance of the Agriculture Department and statutory facilities with regard to recovery of dues on the lines of the facilities available to the co-operative credit structure". Besides lending support to agriculture individually, the commercial banks have also worked out a proposal to set up a Rs 100-crore Agricultural Finance Corporation, with initial share capital of Rs 10 crores to be wholly subscribed by the member banks.

The government, on its part, seems to be keen on implementing one of the recommendations of an informal group set up by the Reserve Bank, which suggested some time ago that in states where the co-operative credit structure is weak and the credit supply is required to be supplemented, farm credit corporations should be set up as a transitory measure. It now proposes to introduce in the coming session of Parliament a bill which will enable the state governments to set up farm credit corporations; it has already circulated a draft of the bill among the states of Assam, West Bengal, Bihar, Orissa and Rajasthan and the union territories of Manipur and Tripura for their comments. Meanwhile, in addition to the short-term credit of Rs 500 crores that will be available to farmers through co-operatives, the government has arranged to make available an amount of Rs 83.50 crores for long-term agricultural credit to them during the current financial year. To this the commercial banks collectively will be contributing Rs 17 crores by way of subscription to co-operative land-mortgage debentures.

All this goes to show that the government has of late begun to think and act along the right lines. The realisation on its part that a multi-agency approach is imperative for meeting the increasing needs of agricultural finance in our country is a happy augury.

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R. Y. GARG
GENERAL MANAGER

Banks and Small-Scale Industries

IN LINE with the policy of our scheduled banks to assist the comparatively backward sectors of the economy, advances to small-scale industries, which usually operate with a weak capital structure, have continuously been increasing during the last few years. This significant direction in the lending operations of scheduled banks is remarkable because of the fact that small industrialists usually are unable to offer the types of securities which credit institutions normally require. The scheduled banks undertake considerable risk in lending to small-scale units which are in their developing stages, because many of them are unable to bear the stresses and strains of economic changes. It may be observed from Table I below that advances to small-scale industries have continuously increased during the last few years and this increase was particularly rapid after 1964. Between December 1963 and March 1965 these advances increased by 53 per cent to Rs 73.83 crores. By the end of March 1966 these advances stood at Rs 90.76 crores showing an increase of nearly 263 per cent over the advances on December 31, 1960. It may be added that the amount sanctioned for advances on March 1966 to these small-scale units was around Rs 154 crores, nearly Rs 65 crores more than the actual advances utilised. Also, it needs to be underlined that the figures quoted above include the contribution of the State Bank of India. At the end of 1966, the outstanding credit of the State Bank of India to small-scale industries was a little less than Rs 32 crores—roughly one-third of the total advances made by all scheduled banks taken together. In other words, the State Bank controlling nearly one-third of the total deposits of all scheduled commercial banks taken together, has assisted the small-scale industries only proportionately to its share in the banking sector. It implies that the scheduled banks in the private sector have not lagged behind in their efforts to help the small-scale industries.

TABLE I

BANK ADVANCES TO SMALL-SCALE INDUSTRIES
(Outstanding at the end of the period)

(Rs crores)			
Period	Advances	Changes during the period	
December 1960	27.54	—	
December 1961	32.08	+4.54	
December 1962	39.44	+7.36	
December 1963	47.72	+8.28	
March 1965	73.83	+26.11	
March 1966	90.76	+16.93	
March 1966 over December 1960		+63.22	

In sharp contrast to the performance of scheduled banks, the advances from other institutions to small-scale industries were comparatively unimpressive. The central government formulated a programme for the disbursement of loans under the State Aid to Industries Act, and no more than Rs 18.12 crores were advanced under this scheme during the third Plan period. Similarly the advances to the small-scale sector by the state financial corporations in 1966-67 revealed that during the nine months ending December 1966 an amount of Rs 10 crores was sanctioned to the small-scale industries as against Rs 14 crores in 1965-66 and Rs 13 crores in 1964-65. It was not without reason that the Estimates Committee, 1965-66, reporting on the organisation of the Development Commissioner, Small-Scale

Industries, noted that "both as regards the number of small-scale units assisted and the total amount of loans disbursed to such units the performance of the state financial corporations has not been impressive. They also consider it unfortunate that the state financial corporations should have developed a pre-

TABLE II

SCHEDULED COMMERCIAL BANKS' ADVANCES AND AMOUNTS SANCTIONED TO SMALL-SCALE INDUSTRIES

(Rs crores)

	March 31, 1965		March 31, 1966	
	Amount	Percentage	Amount	Percentage
Limits sanctioned and in force	134.9	100.0	153.6	100.0
Total Outstanding advances	73.8	54.7	90.8	59.1
of which				
(i) Cash credit and overdrafts	55.2	(74.8)	72.3	(79.6)
(ii) Loans	9.1	(12.3)	9.4	(10.4)
(iii) Bills	9.5	(12.9)	9.1	(10.0)

(Figures in brackets indicate percentage to total shown against item 2)

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ference for investing their funds in the medium scale units and in the bigger among the small-scale units, with the result that the really small units which need institutional credit most, are left to fend for themselves." In other words a public sector institution established with the avowed objective of assisting the small-scale industries in need of funds, was not able to offer advances to the small-scale industries to the extent the scheduled banks did.

A break-up of the outstanding advances of the scheduled commercial banks to small-scale industries (Table II, p. xi) reveals that cash credit and overdrafts constituted nearly 80 per cent of the accommodation. Loans and bills shared equally the remaining 20 per cent of the total advances. These advances when classified in terms of individual industrial groups were observed to be distributed over a large number of industries (Table III). For instance, the textile group constituted nearly 12 per cent of the total advances while light engineering industries were the largest single group to receive nearly 23 per cent of the total advances by the scheduled banks. The group constituting 'others' which included tanning, leather goods, paper products, plastics, saw mills and handicrafts received nearly 37 per cent of the total. It may be indicated that there were consi-

derable fluctuations from year to year in the share received by each industry. Thus as against Rs 6.4 crores received by the textile group towards the end of March 1963, the amount received by the end of March 1966 was Rs 10.66 crores. The amount advanced to light engineering industries increased progressively from Rs 10.49 crores towards the end of 1963 to Rs 20.56 crores by March, 1966. The share of rice mills and other food products recorded a decline during the year 1965-66. The share of vegetable oil crushing and refining, manufacture of metal products, electric goods, radio sets etc. and chemicals dyes and paints recorded nominal increases. Advances utilised by the residual group, 'others', increased from Rs 14.58 crores towards the end of 1963 to Rs 33.17 crores by March, 1966. The share of this group in the total advances to the small-scale industries increased substantially from 30.5 per cent to 36.6 per cent during the period.

From the facts cited above, it is clear that there is a positive change in the attitude of the banks toward the small-scale industries. Without forsaking the banking principles, the banks are extending increased assistance to this sector and there is no doubt that in the coming years greater volume of financial assistance will be made available to them.

TABLE III

INDUSTRY-WISE CLASSIFICATION OF ADVANCES TO SMALL-SCALE INDUSTRIES

Groups of Industry	December 31, 1963		March 31, 1965		March 31, 1966	
	Amount (Rs lakhs)	Percentage to total	Amount (Rs lakhs)	Percentage to total	Amount (Rs lakhs)	Percentage to total
Textiles	6.38	13.4	10.44	14.1	10.66	11.7
Rice mills and other foods	3.01	6.3	3.99	5.4	2.36	2.6
Vegetable oil crushing and refining	2.80	5.9	3.13	4.2	4.66	5.1
Light engineering goods and transport equipment	10.49	22.0	17.69	24.0	20.56	22.7
Manufacture of metal products (metal pipes, tubes, etc.)	5.05	10.6	5.69	7.7	7.54	8.3
Electrical goods, radio sets, etc.	2.24	4.7	3.38	4.6	4.96	5.5
Chemicals, dyes, paints, etc.	3.17	6.6	4.63	6.3	6.85	7.5
Others (including leather goods, paper products, etc.)	14.58	30.5	24.88	33.7	33.17	36.6
Total	47.72	100.0	73.83	100.0	90.76	100.0



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TRENDS IN BANKING : 1951—65

(Amount in lakhs of rupees)

End of	1951	1956	1961	1962	1963	1964	1965
1. Number of banks	566	423	292	276	252	156	109
Scheduled Banks	92	89	82	80	79	76	76
Non-scheduled Banks	474	333	210	196	173	80	33
2. Number of offices of banks in India	4,151	4,067	5,012	5,173	5,491	5,828	6,133
Scheduled Banks	2,647	2,966	4,390	4,608	5,004	5,499	5,904
Non-scheduled Banks	1,504	1,101	622	565	487	329	229
3. Population* per office (in '000's)	87	98	88	87	83	80	77
4. Total Deposits in India	908,47	1,159,36	2,011,52	2,183,25	2,420,29	2,742,37	3,073,36
Current Deposits	456,11	450,45	567,50	603,98	655,39	757,97	805,68
Savings Deposits	149,30	199,36	327,98	386,50	465,55	570,78	677,83
Fixed Deposits	250,36	366,24	948,72	1,051,45	1,142,09	1,266,95	1,449,62
Other Deposits	52,70	143,31	167,32	141,32	157,26	146,67	140,23
5. Average Deposits per office	22	29	40	42	44	47	50
Scheduled Banks	32	37	45	47	48	49	52
Non-scheduled Banks	5	7	6	7	7	9	11
6. Deposits per capita (in Rs.)	25	29	46	49	53	59	65
7. Credit** Outstanding in India	626,90	824,15	1,293,17	1,447,50	1,622,18	1,881,71	2,130,23
Scheduled Banks	581,39	781,66	1,268,18	1,426,44	1,604,44	1,866,60	2,116,36
Non-scheduled Banks	45,51	42,49	24,99	21,06	17,74	15,11	13,87
8. Average Credit per Office	15	20	26	28	30	32	35
Scheduled Banks	22	26	29	31	32	34	36
Non-scheduled Banks	3	4	4	4	4	5	6
9. Credit per capita (in Rs.)	17	21	29	32	36	40	45
10. National Income† (at current prices)	9,970,00	11,310,00	14,800,00	15,400,00	17,210,00	20,010,00	20,409,00
11. Deposits as percentage of National Income	9	10	14	14	14	14	15
12. Paid-up Capital and Reserves	75,15	72,23	76,36	84,14	88,46	92,23	95,41
Indian Scheduled Banks	61,78	60,15	70,56	78,55	83,25	88,43	93,25
Non-scheduled Banks	13,37	12,08	5,80	5,59	5,21	3,80	2,16
13. Ratio of Paid-up Capital and Reserves to Deposits	9.7	6.7	4.1	4.2	4.0	3.7	3.4
14. Ratio of Credit to Deposits	69.2	72.0	64.3	66.5	67.2	68.8	69.4
15. Number of Bank Employees	—	78,852	1,15,107	1,24,846	1,33,823	1,43,461	1,55,422
16. Total Earnings	45,35	64,89	124,00	142,21	161,33	189,71	242,49
17. Total Expenses	32,30	51,27	95,73	114,07	130,33	154,92	207,52
18. Establishment Expenses	15,40	21,74	35,83	42,64	49,13	58,95	73,54
19. Profits before Tax	13,05	13,62	28,27	28,14	31,00	34,79	34,98
20. Ratio of Profits before Tax to Paid-up Capital and Reserves	12.2	16.8	33.3	29.8	30.1	32.3	30.5

Note 1. Information presented in this statement pertains to banks other than co-operative banking institutions.

Note 2. Items 13 and 20 relate to Indian scheduled banks only; items 14 to 19 relate to all scheduled banks.

* Population figures for 1956, 1962, 1963, 1964 and 1965 are estimated.

** Loans and advances and bills purchased and discounted.

† Figures relate to financial years (April to March).

Source : Reserve Bank of India.

DEPOSITS WITH SCHEDULED COMMERCIAL BANKS BY CATEGORY OF OWNERSHIP

(Number of accounts in thousands)
(Amounts in crores of rupees)

Category of ownership	March 31, 1963		March 31, 1964		March 31, 1965		March 31, 1966	
	Accounts	Amount	Accounts	Amount	Accounts	Amount	Accounts	Amount
Business	6,84	622.4	7,45	675.1	8,18	773.5	8,79	800.9
	(9.0)	(29.9)	(8.5)	(28.5)	(8.0)	(28.5)	(7.3)	(25.7)
Industry	76	172.3	85	193.5	91	243.7	85	225.1
	(1.0)	(8.3)	(1.0)	(8.2)	(0.9)	(9.0)	(0.7)	(7.1)
Trading	5,67	256.0	6,17	271.4	6,78	299.5	7,39	325.3
	(7.5)	(12.3)	(7.1)	(11.4)	(6.6)	(11.0)	(6.1)	(10.5)
Financial	30	179.6	30	189.7	32	208.9	32	226.9
	(0.4)	(8.6)	(0.3)	(8.0)	(0.3)	(7.7)	(0.3)	(7.3)
Others	11	14.5	13	20.5	17	21.4	23	23.6
	(0.1)	(0.7)	(0.1)	(0.9)	(0.2)	(0.8)	(0.2)	(0.8)
Personal*	66,27	1,028.7	76,40	1,166.1	90,67	1,398.7	108,15	1,714.2
	(87.4)	(49.4)	(87.6)	(49.2)	(88.6)	(51.6)	(89.7)	(55.1)
Professional	79	27.2	1,22	39.7	95	36.4	88	36.1
	(1.0)	(1.3)	(1.4)	(1.7)	(0.9)	(1.3)	(0.7)	(1.2)
Government and Quasi-Government Bodies	24	163.2	27	197.6	32	195.0	31	226.3
	(0.3)	(7.8)	(0.3)	(8.3)	(0.3)	(7.2)	(0.3)	(7.3)
Others	1,67	241.7	1,89	291.6	2,22	310.3	2,43	334.8
	(2.2)	(11.6)	(2.2)	(12.3)	(2.2)	(11.4)	(2.0)	(10.7)
Total	75,81	2,083.2	87,23	2,370.1	102,34	2,713.9	120,56	3,112.3
		(100.0)		(100.0)		(100.0)		(100.0)

Note : Figures in brackets are percentages to total.

* Inclusive of unclassified savings deposits accounts.

Source: Reserve Bank of India.

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**AVERAGE AMOUNT PER ACCOUNT IN DEMAND, SAVINGS AND TIME DEPOSITS OF SCHEDULED
COMMERCIAL BANKS**

(Accounts in thousands) (Amounts in Rs. crores)												
As on	Demand				Savings			Time			Total	
	No. of repor- ting Banks	No. of Acco- unts	Amo- unt	Aver- age (Rs.)	No. of Acco- unts	Amo- unt	Aver- age (Rs.)	No. of Acco- unts	Amo- unt	Aver- age (Rs.)	No. of Acco- unts	Aver- age (Rs.)
Banks with Deposits of Rs. 100 crores and above												
March 31, 1963	6	6,98	447.0	6,404	22,41	232.5	1,038	4,43	528.5	11,901	33,82	1,208.0
March 31, 1964	6	7,49	501.4	6,697	26,31	281.3	1,069	5,08	613.8	12,088	38,87	1,396.5
March 31, 1965	7	8,55	588.8	6,887	33,53	361.4	1,078	7,34	738.4	10,059	49,42	1,688.6
March 31, 1966	7	9,22	611.3	6,630	40,07	450.2	1,124	10,15	866.3	8,535	59,44	1,927.8
Banks with Deposits of Rs. 25 crores and above but less than Rs. 100 crores												
March 31, 1963	14	4,50	164.7	3,665	16,23	109.3	674	5,94	334.8	5,636	26,67	608.8
March 31, 1964	15	5,40	194.8	3,603	20,56	141.5	548	7,32	373.1	5,098	33,29	709.4
March 31, 1965	17	5,51	198.0	3,592	25,18	171.1	680	8,21	427.0	5,201	38,90	796.1
March 31, 1966	16	5,83	210.5	3,611	28,91	207.2	717	10,29	462.5	4,495	45,03	880.2
Banks with Deposits of Rs. 5 crores and above but less than Rs. 25 crores												
March 31, 1963	15	1,54	46.1	2,999	5,73	35.7	622	1,47	96.9	6,620	8,74	178.7
March 31, 1964	16	1,53	45.5	2,972	6,11	39.7	650	1,62	98.5	6,091	9,26	183.7
March 31, 1965	19	1,38	36.7	2,659	5,27	34.6	658	1,79	105.2	5,877	8,44	176.5
March 31, 1966	24	1,70	52.1	3,065	7,45	50.3	675	2,81	143.9	5,121	11,96	246.3
Banks with Deposits of less than Rs. 5 crores												
March 31, 1963	43	1,16	20.4	1,752	3,91	14.7	376	1,51	52.6	3,487	6,58	87.7
March 31, 1964	39	1,01	18.0	1,784	3,32	13.6	408	1,50	49.1	3,271	5,83	80.6
March 31, 1965	32	88	16.6	1,886	3,28	14.4	439	1,40	39.0	2,786	5,56	70.0
March 31, 1966	28	67	14.0	2,090	2,41	12.6	523	1,04	31.4	3,019	4,12	58.0
All Scheduled Commercial Banks												
March 31, 1963	78	14,18	678.2	4,784	48,28	392.2	813	13,35	1,012.8	7,587	75,81	2,088.2
March 31, 1964	76	15,43	759.7	4,923	56,30	476.1	846	15,51	1,134.4	7,313	87,24	2,370.2
March 31, 1965	75	16,32	840.1	5,148	67,26	581.5	865	18,74	1,309.6	6,988	102,32	2,731.2
March 31, 1966	75	17,42	887.9	5,097	78,84	720.3	914	24,29	1,504.1	6,192	120,55	3,112.3

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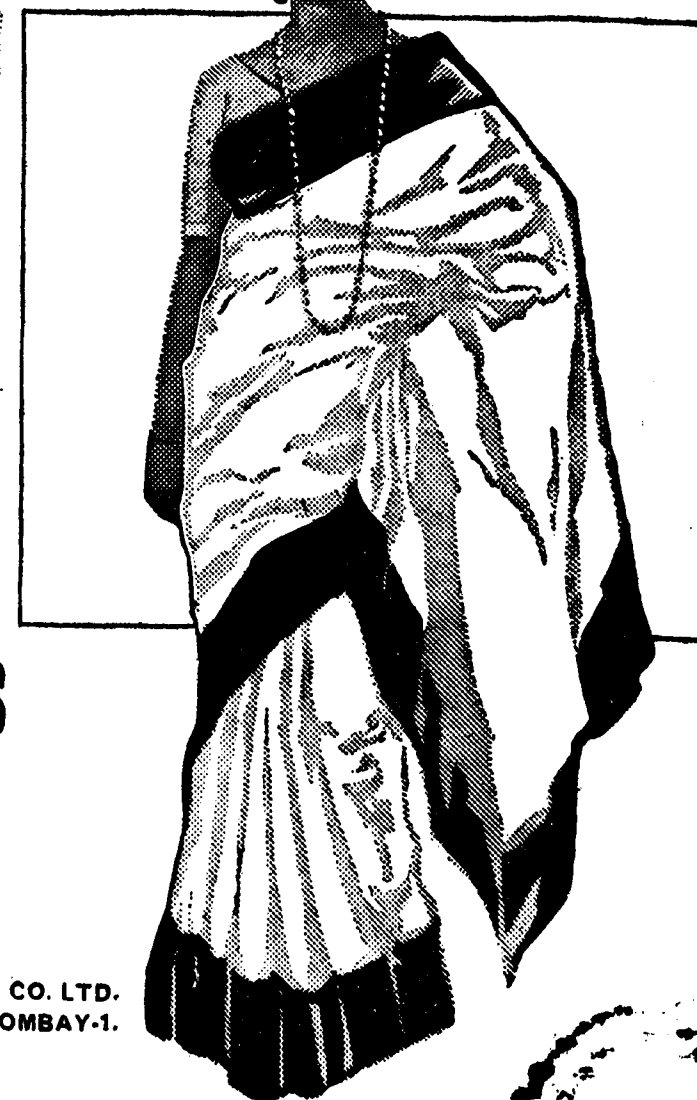
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