

1165

Eastern Economist

1967 - November

Nos. 18-21 . Vol. 49.



JL

Xm2, N42

N67-49-18-21

93799

NOVEMBER 3, 1967

Jugglery at Jabalpur	803
Bumper Harvest in the South	804
Pesticides to Minimise Losses	805
Red-Tape Retards Exports	806
Indian Oil Has Done Well	807
Decline in Output Through State Management	808
Why Bank Rate Increase Was Overdue—Paul Einzig	810
Wanted: Smelters for Non-Ferrous Metals—Manubhai Shah	813
Towards Prosperous Agriculture—R. C. Ummat	815
FROM THE CAPITAL'S CUPBOARD	819
Management of Sick Textile Mills.	
WINDOW ON THE WORLD	321
Impact of Automation on Education.	
Two Years of Yugoslav Economic Reforms.	
Indo-Rumanian Co-operation.	
Implications of Slowdown.	
TRADE WINDS	328
Industrial Collaboration; Family Planning; Agricultural Credit; Aluminium Prospects; Drugs and Pharmaceuticals; Tita Joists for Iran; Mica Workers' Advisory Board; Food Imports; Canadian Aid; Handicrafts Exports; Import of Instruments; Sydney Fair; Expo67 Ends; Rubber Prices; Paints to Czechoslovakia; Tea Plantation in Jammu; Air Link with Indonesia; Jute Forward Trading.	
COMPANY AFFAIRS	830
Hindustan Aluminium; Dunlop India; General Electrodes, Crompton Greaves; Asso Battery; Central India Spinning; Indian Aluminium; Indian Hume; Morarjee Mills; Kishco Mills; The Traders Bank; Fibre Foam; Imperial Tobacco; Unit Trust Price; Capital and Bonus Issues; Licences and Letters of Intent.	
BOOKS BRIEFLY	835
Tax Incentives for Economic Growth; Air Transport.	
RECORDS AND STATISTICS	937
ARC's Report on Public Enterprises.	
Fertiliser Programme	

ANNUAL SUBSCRIPTION

INLAND: Rs. 70.00

FOREIGN: £6-0-0 or \$17-00

Airmail & Advertisement Rates on Enquiry.

REGISTERED OFFICE:

UCO Bank Building, P. Box 34,

Parliament Street, New Delhi-1.

Jugglery at Jabalpur

THE BOLD stand taken by the Deputy Prime Minister and Minister for Finance, Mr Morarji Desai, at Jabalpur in regard to the 10-point programme seemed to pay rich dividends. He succeeded in convincing—the radicals apart—the leading members of the All-India Congress Committee (AICC) about the harmful consequences which would follow if banks were nationalised. He was right in asserting that the 10-point programme did not envisage nationalisation of banks at all; it called for only "social control on banks". Mr Desai held out the assurance that within six months he would translate the idea of "social control of banks" into a reality. At the same time, he seems to have succumbed to the pressure from the left in regard to accepting "in principle" the nationalisation of general insurance. It was perhaps the price which he thought he had to pay in order to carry the AICC with him. If the principle of nationalisation was harmful in the case of banks, how could it be otherwise in the case of general insurance? Obviously, it was a battle of compromises wherein Mr Desai lightly dropped general insurance and now it is only a question of time when general insurance would also become a part of the public sector.

What has been gained at Jabalpur is only a little more time during which it is for the opinion-makers in the country to put forward their point of view repeatedly and relentlessly and not to feel that the battle has been won. The battle has really started and the undecided elements in the Congress party will have to be provided with facts to show how the policies being recommended by Mr Chandra Shekhar and his friends are against the long-term interests of the country. The bankers in this country should initiate a national discussion in all towns and cities and ask their depositors to take part in it. It is worthwhile conducting an opinion poll of the depositors asking them whether they would like the banks to be nationalised or not. Through a nation-wide poll of people who have put their money in the banks, an effort should be made to determine what their understanding of social control is and what type of changes they would like to be brought about in the banking sector.

The Jabalpur session, therefore, will go down in the history of the AICC as one where the leftist elements within the Congress made some gain, though the illusion was created that they had failed to achieve anything despite a withering attack. The Prime Minister tried to steer a middle-of-the-road course so as not to annoy anyone. She neither ran down the pro-nationalisation elements nor did she actively favour nationalisation. She seemed to give the impression that perhaps the present time was not opportune for drastic decisions and that the demand of the extremists would be accepted only when the right political and economic climate existed in the country. Mrs Indira Gandhi is reported to have said that the 10-point programme had not been abandoned and that if the policies currently being pursued were not successful, she would have no hesitation in bringing forward more radical measures. In short, if social control did not work the way the "pseudo-radicals" want it to, the nationalisation of banks would follow as a natural corollary.

The spirit of compromise prevailed in regard to other issues as well. That is why the Home Minister, Mr Y. B. Chavan, was asked to negotiate with the princes in regard to gradual reduction in the privy purses instead of annulling the agreements with them at one go. The consensus was that, through a policy of compromise and over a period of years, the objective of withdrawing the princes' privileges could be achieved without giving the impression that the government had gone back upon its assurances.

One of the resolutions at Jabalpur which attracted not much attention but had the highest significance was in relation to the occasional communal riots

in some parts of the country. It emphasised the importance of keeping communal harmony in the country. Similar resolutions have been passed by the Congress times out of number and that is why there was nothing new in it. The eruption of communal trouble in various parts of the country from time to time is a legacy of the pre-independence days. Stray communal incidents, however, cannot be avoided altogether in this country today because of the mischievous role of some of the political parties in urging the minorities to thrust their point of view on the majority. In a democracy if the majority cannot dictate to the minority, the reverse is also not possible. This has to be a process of give and take. The failure of the Congress has been that it has lost touch with the masses and in many a place where communal trouble has erupted it has been due to the fact that the Congress, once very powerful there, had lost ground completely.

Jabalpur witnessed a clash of ideologies, showing the various strands of political thought which the Congress possesses. It has its rightist and leftist elements and it has also middle-of-the-road sections. The stresses in the party on economic and political policies emerge because of these

differences. The question of the next Congress President remained unresolved. Jabalpur could not reach a verdict on whether or not Mr Kamaraj should be re-elected as president for another term. The pressure groups within the party are operating vigorously for different candidates, but at the moment it is not clear which way the cat will jump. Jabalpur showed that Mr Kamaraj did not enjoy that popularity which he commanded after the promulgation of the Kamaraj plan. He has now a reduced following in the party and it is possible that he may not be elected president for another term, though there is no unanimity about his successor. His role in the selection of the Prime Minister twice since Mr Nehru's death has alienated powerful groups within the party, with the result that he cannot command the same respect which at one time he enjoyed.

In brief, the lesson of Jabalpur is that the need for vigilance on the economic front is much greater than ever before and the banks as well as the industry and commerce must come forward to strengthen the hands of those elements which are against the suicidal policy of nationalisation. As stated above, the battle has begun; it is not the end.

Bumper Harvest in the South

IT IS now agreed that the harvests of food crops in the four southern states of Andhra Pradesh, Kerala, Madras and Mysore will constitute an all-time record and the peak levels of 1964-65 will be comfortably surpassed. In that year the output of all foodgrains amounted to 19.04 million tonnes with Andhra Pradesh topping the list having an yield of 7.63 million tonnes, Madras coming next with 5.74 million tonnes, Mysore third with 4.53 million tonnes and Kerala last with 1.14 million tonnes.

With the severe drought in 1965-66 there was a dip in the total output to 15.89 million tonnes, the decline of over three million tonnes being accounted for mainly by Andhra Pradesh and Mysore. The output of Andhra Pradesh in 1965-66 was only 6.35 million tonnes against 7.63 million tonnes in 1964-65 and of Mysore 3.26 million tonnes against 4.53 million tonnes in 1964-65. There was a drop in Madras also but it was not much pronounced being only 390,000 tonnes to 5.25 million tonnes. In Kerala the decline was only 100,000 tonnes to 1.02 million tonnes. The details relating to final estimates for 1966-67 are not available but it is generally estimated that the output of foodgrains would not have been more than 15 million tonnes.

The cultivation of rice is undertaken on a large scale in Andhra Pradesh and Madras state and the yield in 1964-65 of this fine cereal in all the four states was 11.63 million tonnes. The share of Andhra Pradesh was 4.89 million tonnes and of Madras 4.05 million tonnes. Mysore produced 1.66 million tonnes and Kerala 1.12 million tonnes. The drought conditions in 1965-66 brought about a decline in the yield of the rice crop by 1.55 million tonnes, the drop being most pronounced in Andhra Pradesh and Mysore state. The same level of production was maintained in 1966-67. In 1967-68, however, it is felt that a new trend in production

has emerged and the yield of coarse and fine cereals may be well over 20 million tonnes. The claim has been made by the Madras Minister of Agriculture that the rice crop alone will be higher by 500,000 tonnes. In Andhra Pradesh a similar increase in output is expected while it would not be surprising if Mysore accounted for an increase of about 350,000 tonnes. In Kerala too there will be a better crop. Total availability is expected to increase by nearly 1.5 million tonnes to over 13 million tonnes. The rain-fed areas in Andhra Pradesh and Mysore state have benefited considerably by the recent favourable south-west monsoon. The north-east monsoon has also set in early and the hope has been expressed that the next harvest too will prove to be very satisfactory. With the improved prospects, it is confidently expected that the increase in the output of all foodgrains will be nearly 2.5 million tonnes when compared to 1964-65 and nearly 6.5 million tonnes as compared to 1966-67.

These figures are highly flattering and perhaps too good to be true. But the Chief Ministers of Andhra Pradesh and Madras state have themselves acknowledged that it would be possible to reap good harvests and the exportable surplus of Andhra Pradesh alone would be of the order of a million tonnes. Madras state can hope to provide Kerala 300,000 tonnes while Mysore state will be nearly self-sufficient. On the basis of these calculations there should not be any difficulty in meeting Kerala's deficit from within the south zone as formerly constituted. There is no doubt that the favourable weather conditions have been responsible for a better output of fine and coarse cereals. What exactly will be the ultimate effect of such an increase in production on the price structure is too early to say. But the abnormal conditions that prevailed in many parts of these four states have miraculously disappeared. In Kerala there is no talk of agitation by students against the state govern-

ment and not of protests against the policy of the central government towards Kerala in respect of foodgrain supplies. Open market prices for rice which ruled at high levels in Calicut, Cochin and Trivandrum have come down sharply while in Madras state good quality rice is available at the door even in rationed areas at very near the issue prices of ration shops. There is bound to be even a slight surplus of a million tonnes of coarse cereals and rice which can be spared for consumers in Maharashtra and West Bengal.

The question now asked is whether the performance of this season can be expected to be repeated in 1968-69 and whether the country can boast of self-sufficiency in regard to its needs of foodgrains. It is difficult to answer this question categorically as the experience of 1965-67 has clearly shown that there can be a fluctuation in the yield by nearly 20 per cent if weather conditions proved extremely unfavourable.

It is possible to say that the new techniques now being adopted have imparted greater stability to the food economy of the country. There is every reason to hope that in areas where reasonable irrigation facilities exist and it is possible to raise at least one crop in regions which have adequate rainfall, the yield per acre can be higher by 25 to 35 per cent.

Pesticides to Minimise Losses

WITH THE introduction of the programme for high-yielding varieties of food crops, the need for avoiding risks of damages to crops through pest attacks has also become large. It is gradually being realised that if pesticides are not brought into use to an adequate extent the expected returns against costly inputs might be nullified causing frustration and lack of faith in high-yielding varieties programme. Only a beginning has been made in this regard so far. Actual use of pesticides in relation to international standards is still low. For instance, the use of pesticides in this country is equivalent to Rs 1.50 per hectare as against Rs 110 in Japan. As against one kilogram of pesticides used in relation to 50 kilograms of nitrogen used in this country, Japan consumes one kilogram of pesticides for every 30 kilograms of fertilisers.

The extent of loss due to pests, diseases and weeds caused every year to crops in this country has been estimated at about Rs 1,000 crores or nearly 15 to 20 per cent of the value of total agricultural produce. A recent survey undertaken by the National Council of Applied Economic Research (NCAER) covering various crops revealed that overall damages to the extent of 14.9 per cent could be prevented at the stage of standing crops through the use of pesticides. Also, it has been estimated that if losses in storage were taken into account, the total percentage loss would rise to 20. The response to the use of pesticides has varied from crop to crop. The overall percentage increase in yield after the use of pesticides turned out to be as high as 40 per cent in cotton and as low as three per cent in wheat. For other crops it ranged from nine to 15 per cent, thereby bringing the overall average to 14.9 per cent. Nevertheless, the NCAER's study has clearly indicated that losses which can be avoided through the proper use of pesti-

The use of hybrid seeds, fertilizers and pesticides have been helpful in increasing yield per acre in many areas by even 50 per cent and it is asserted in Madras state that the use of ADT-27 has been responsible for an increase in the yield by as much as 50 per cent. It is hoped that with double cropping over a large area the output of rice in Madras state which is now 4.5 million tonnes, can easily exceed 5 million tonnes. In Andhra Pradesh similar scope exists and with the farmers in that state inclined to use fertilisers to a greater extent than before the yield of rice can be easily six million tonnes if not more. This is indeed a happy prospect and the year 1967-68 will probably stand out in history as the dividing line between a period of halting growth and a period of scientific and sustained increase in production. Even with poor yield in Orissa, Bihar and Madhya Pradesh there is reason to feel that the new techniques will yield substantial results and eliminate the dependence on imports much earlier than expected. What is necessary in this context is the adoption of methods which will bring about stabilisation in agriculture as has happened in Madras. If even with severe drought conditions it can be ensured that there will not be a decline in output by more than 10 per cent as happened in Madras state, there is no need to be worried about feeding the population on the required scale.

cides are substantial and an all-out effort is required to popularise their use over as wide an area as possible.

The farmers in this country, by and large, are aware of the losses to crops caused by major pests such as rice stem borer, cutworms and termites and many farmers do adopt plant protection measures. The survey conducted by the NCAER revealed that of the non-users, 30 to 60 per cent of the cultivators did not have adequate financial resources and 40 to 70 per cent were not aware of the efficacy of pesticides. The variations, it may be observed, from one state to another were substantial. The proportion of those who were not aware of the pest attacks was small in all states. Most of the farmers who were initiated in the use of pesticides did so on the encouragement of the agricultural extension workers and their field demonstrations. The pesticides used by the farmers were DDT, BHC, endrin, parathion, malathion, sulphur, bordeaux mixture and aldrin. These pesticides were distributed to the farmers by the department of agriculture and community development, co-operatives, marketing societies, panchayats and several private firms. It has been estimated that these institutions had nearly 10,000 organised sale points in different parts of the country. This number hardly appears to be adequate, and a better strategy will have to be adopted by the department of agriculture and private producers to increase the number of sale points.

The present annual production of BHC and DDT, the two important pesticides used by the cultivators, has been estimated at around 10,000 tonnes and 2,800 tonnes respectively. Other insecticides produced in notable quantities were thiocarbamates (7,600 tonnes), copper salts (6,700 tonnes), malathion (750 tonnes) and zinc phosphate (300 tonnes).

XL
Xm 2, N 42
N67-49-18-21

93795

In all, eight insecticides, five fumigants, seven fungicides, two rodenticides and one herbicide are produced in this country. The industry has also extended its capacity by producing the more recently developed pesticides such as malathion, parathion, and dimethoate. This quantity, however, is below the existing demand. A considerable quantity of pesticides was, therefore, imported. The allocation of foreign exchange for the import of raw and finished pesticides stood around Rs 13.29 crores in 1966-67. The availability after taking into account the imports came to around 33,000 tonnes of pesticides. The projected demand for 1970-71 has been estimated to increase to 83,000 tonnes when nearly 85 million hectares of area will be treated by them. The NCAER has estimated that nearly 344,000 tonnes of technical grade pesticides would be required for the treatment of 282 million hectares of land 15 years hence. Both the estimates show that the licensed capacity of this industry will have to be increased to facilitate the production of required quantity of pesticides.

A word needs to be added about the techniques relating to the application of pesticides. Conventionally, pesticides

are applied as foliar sprays, but a major drawback in this method is the rain which washes them away. The sprays also do not reach the stem where stem borer lays eggs. More recently, insecticides have also been applied to the water surface in the fields from where they permeate into the stem of the plant. Aerial sprays have also been tried for treating large patches of land but by international comparison the total area covered is not enough. In the USA and the USSR aerial sprays cover nearly 66 million acres each as against 350,000 acres in this country. To achieve a certain extent of economy, ultra low volume sprays have been tried where the pilots fly nearly 15 to 30 feet above the crop level as against the conventional altitude of three to five feet.

The popularity of pesticides in this country is growing and will surely be reflected in improved agricultural performance. Like many other scientific applications, the progress on pesticides is not as fast as the situation demands. But increased efforts on the part of the government, the producers, the distributors and the farmers will be helpful in the effective utilisation of this valuable instrument for improved agricultural production.

Red-Tape Retards Exports

"THE EXPORTER considers it a nightmare to fill in dozens of forms, to answer scores of questions and, above all, to wait for months before he gets what is due to him", said Mr P. A. Narielwala, President of the Federation of Indian Export Organisations, in his speech at its annual meeting held recently in New Delhi. He referred to cases where drawback claims had not been settled for years and applications for import licences had been kept pending for months. He also pointed out that the exporter had come to look upon the various forms of assistance announced by the government as "paper benefits".

This is not, of course, the first time that complaints have been voiced about red-tapism holding up exports. In fact, ever since the country launched on an export drive about ten years ago, many influential committees have repeatedly drawn attention of the government to the enormous delay, difficulty and frustration experienced by businessmen in matters dealing with foreign trade. It is not as if the government is unaware of these hardships. But it has been unable or unwilling to take effective action.

It is not adequately appreciated that red-tapism was one of the factors which compelled the Government of India to devalue the rupee in June 1966. Prior to devaluation, the Government of India had been giving subsidies and incentives to industry and trade in various forms for export promotion but these schemes did not operate smoothly. Exporters found the official formalities so complicated that some of them even preferred to forgo their claims of duty draw-backs and other benefits. The failure of these incentive schemes was one of the reasons for the devaluation of the rupee in June last year.

It is surprising that even now the administrative machinery continues to function in the same old manner. As a result,

both the established and the new export industries lose their enthusiasm for increasing exports. For instance, the Chairman of the Indian Jute Mills Association disclosed early this year that "at every turn we are experiencing inordinate delay in receiving our dues from government". He said: "Soon after devaluation of the rupee, government announced that tax credit would be payable only on goods exported prior to June 6. Mills and shippers, nine months after the abolition of tax credit, still have considerable outstandings due from government and, as far as we can ascertain, they amount to approximately Rs 15 million. The position is similar with regard to assistance for the import of raw jute. The scheme has now been in operation for almost nine months and payments made to mills by government are negligible and we calculate that we are owed in the region of Rs 85 million. Many mills still wait to receive refunds of 10 per cent regulatory duty and payment under the Emergency War Risks Insurance schemes. All in all, the estimate today is that the government owes the industry some Rs 120 million".

How red-tapism affects our exports is shown by another instance mentioned by Mr Narielwala. He has disclosed that our exporters are unwilling to subject themselves to compulsory quality control because of the "legitimate fear" that it would cause delay and interfere with exports.

In this background, it is amazing to note that the Government of India is thinking seriously of extending the sphere of state trading. Foreign trade is a highly specialised business, requiring considerable skill in all stages of the transaction. Therefore, before taking over additional trading activities, the Government of India should conduct an impartial and thorough enquiry into the working of the State Trading Corporation to find out to what extent it has

actually helped the country in increasing and diversifying our exports and in encouraging import substitution. It appears that many of the criticisms levelled by the Estimates Committee of the Lok Sabha in 1963-64 against the working of the STC seem valid even today. The committee, for instance, pointed out that the STC's efforts in expanding the exports of difficult-to-sell items had not met with much success, that the benefit of lower prices in respect of commodities wholly canalised through the STC had not been passed on to the consumer or actual user, that partial canalisation of imports had not imparted stability to prices or helped to bring them down, and that the STC had not maintained liaison with the trade to the desired extent. Another criticism was that the STC had not kept adequate, accurate and up-to-date statistics.

In the light of this performance by the STC, is it wise or safe to extend the sphere of state trading merely on ideological grounds? Mr Narielwala has expressed disappointment with the fact that out of 4,500 manufacturing units in the country in the organised sector, only 125 contribute to our exports. Does the Commerce Ministry seriously think that threats of nationalisation will create greater enthusiasm among the present exporters or encourage new entrants into this difficult field?

The major task before the country today is to augment the earnings of free foreign exchange. This is a sphere where politics or ideology should have the least influence. Instead of dislocating the normal trade channels or threatening them with "take-overs", the Government of India should create a congenial climate in which merchants and manufacturers will vie with one another in maximising the earnings of foreign exchange. The administrative efficiency,

especially of the economic ministries, should be improved so that exporters can get promptly the benefits to which they are entitled under the incentive schemes. Simplification of export documents is another urgent need. It is not known if the Administrative Reforms Commission is giving special attention to this problem. Other countries have made considerable progress in this respect and, as a result, exporters have been able to do their job with far greater efficiency and economy than before. For instance, a recent study by the GATT Secretariat in Geneva revealed that by simplifying export procedures, firms in Sweden were able to cut costs of shipping documentation by nearly 70 per cent while others could effect substantial reduction in the expenditure on the staff of their export departments.

Another immediate reform required is in respect of co-ordination among the advisory bodies of the Commerce Ministry. Mr Narielwala has referred to the confusion arising from the existence of two bodies for dealing with exhibitions—the Directorate of Exhibitions in Delhi and the Council of Trade Fairs and Exhibitions in Bombay. Mr Narielwala has observed that the "time has come for the government to decide in either combining these two bodies or abolishing one of them. This diarchy has not been a success and has led to misunderstanding on many an occasion". Mr Dinesh Singh, the Commerce Minister, also admitted at the last meeting of the Board of Trade that "a rationalisation of the number of committees and their terms of reference might lead to greater efficiency and usefulness". The Government of India therefore should give more attention to the many urgent and constructive tasks that lie before it instead of dissipating its energies on controversial measures which will only disturb and dislocate the already dwindling export trade.

Indian Oil Has Done Well

AT A time when there is general criticism—in most cases, this is also legitimate—that the large investments in the public sector are yielding appallingly low returns, the performance of the Indian Oil Corporation (IOC) during the year 1966-67 makes heartening reading. The working of that year, according to the latest annual report, resulted in a return of 8.8 per cent on equity. This has to be set alongside the return on capital employed of 12 per cent (not on equity only) indicated by the Taluqdar Committee, on the one hand, and the return earned of only 1.6 per cent in the previous year and 1.7 per cent in 1964-65, on the other. Incidentally, the IOC has declared its maiden dividend of six per cent for 1966-67. The results would have been more spectacular, we are told, but for the unavoidable losses consequent on devaluation and under-recovery of rail freight and central sales tax, the latter being the outcome of the pricing policy in respect of petroleum products distributed in the country.

The steady growth of this "giant" in the public sector in oil, which has prompted older and established foreign-owned oil companies to complain of enormous competition from the IOC, is commendable. Today, it is handling half a million kilolitres of petroleum products a month, or about

36 per cent of the total sales of these products in the country. Not all of this, nor even the greater part of it, could be said to be the result of preferential treatments, as alleged by some. Indeed, nearly two-thirds of the IOC's total business is accounted for by the private sector, it is claimed. The corporation maintains that it has to fight every inch of the ground to obtain business even from public sector companies.

The turnover of the IOC during 1966-67, it is stated, represents an increase of 29 per cent over that of the previous year. At this rate of increase, expected by the management to continue in future years also, the corporation should be able to meet the increased demands in the country, but it has to gear itself to the exacting task which implies that there can be no deterioration in the quality of its service.

The latest balance sheet and profit and loss account of the IOC make interesting study. A notable feature, for example, is that there is no provision for development reserve. Presumably, this was not found necessary, inasmuch as substantial entitlement on this account would seem to be available to the corporation and possibly no income-tax would need to be paid for at least the next four or five years. The IOC would be well advised to make full use of

this period of "tax holiday" in consolidating its financial position and creating sizable reserves. This would come in handy not only to meet its growing needs for funds from its own resources, but also to pay off its loans as and when possible. Meanwhile, it does not seem necessary for the corporation to continue to stick to the present debt-equity ratio of approximately 1:1. May be this is in accordance with the general policy adopted by the government in this behalf. It might also have been suitable in the earlier years of development of the corporation. But, now, when the IOC has become firmly established, it should think in terms of reducing the equity proportion steadily.

Another feature in the profit and loss account merits notice. It is that, whereas the value of sales during the year under review has increased by over 50 per cent as compared with the previous year, sundry debtors have increased by only about 27 per cent. It may be recalled that a pointed reference was made to the disquieting feature in public sector units of heavy outstandings by the Committee on Public Undertakings which had even suggested the charging of a penal interest to serve as a deterrent to habitual late payers. Evidently the accounts department of the IOC has been vigilant and needs to be complimented on having reduced the interest charges on overdrafts by about 11 per cent. It would be interesting to know how this was achieved. The working capital has also been reduced from 1.3 months' value of business to 0.9 month's. This is, indeed, noteworthy, considering that, in the year 1964-65, the corresponding figure was 2.2 months' value of business and the NGPO standard itself is 2 months' business.

The progress recorded during 1966-67 has been all round—the refineries division, the marketing division and even the pipelines division. It is noteworthy that, except for lubes, aviation gasoline and, to some extent, kerosene, the IOC was able, through its own refineries, to meet the entire requirements of its marketing division. During the year, Gauhati Refinery processed 742,946 tonnes of crude oil—almost its capacity of 750,000 tonnes; Barauni processed 1.1

million tonnes of crude oil, and Jawahar Nagar processed 1.4 million tonnes of crude oil. (This might have been much more, had not the refinery been obliged to operate below capacity because of the reduced offtake of heavy oil by the Dhuvaran power house). Both Barauni and Jawahar Nagar are, however, expected to reach their rated capacities of two-million-tonne each this year. While construction work on the third million-tonne unit in Barauni is expected to be completed by mid-1968, the third million-tonne stage in Jawahar Nagar is almost complete. What is particularly gladdening is that the country is no longer dependent on imports of high-speed diesel oil and furnace oil; on the other hand, we have begun exporting them.

In spite of severe competition, the marketing division was able to step up its turnover from 3.79 million kilolitres in 1965-66 to 4.89 million kilolitres during the year under review. With the increase in sales, there has also been a commensurate increase in storage capacity, which is nearly 650,000 kilolitres today, and import and pipeline installations. The pipelines division also has made commendable progress, what with the commissioning of the Barauni-Kanpur section of the Haldia-Barauni-Kanpur pipeline and the movement of light diesel oil through the Gauhati-Siliguri pipeline. Light diesel oil should be flowing through the Barauni-Kanpur section also before long, as plans are ready and the technical aspects involved are under study.

All these go to show that nowhere else perhaps have the sharp comments of the Committee on Public Undertakings produced such good results—and so soon too—as in this public sector unit. It is really heartening to be reassured by the IOC chairman that concentrated attention is being focussed on efficiency and cost control, that internal audit is being both intensified and extended, that consumers' outstandings are being subjected to a rigorous check and that officers of the corporation are being given training in methods and procedures. We only hope these reiterations and reassurances would not turn out to be mere routine exercises as they invariably tend to.

with which the cane supply had been increasing year after year when the farms were under joint-stock factory management and the almost equal consistency with which it has been declining year after year under the MSFC management. It is true that, in respect of the latest two years, there was an extenuating factor, the drought, as

Year	Supplies of cane (in tonnes)	Increase (+) decrease (—) (tonnes)
Under Factory Management		
1961-62	3,64,050	
1962-63	4,27,400	+63,350
1963-64	4,41,470	+14,070
Under MSFC		
1964-65	4,15,940	—25,530
1965-66	3,98,140	—17,800
1966-67	3,62,290	—25,850
1967-68	3,38,550	—23,740
		(Estimated)

Decline in Output Through State Management

WHEN ON that fateful day in 1963, five joint-stock sugar factories made over their carefully nurtured and well-developed sugarcane farms to the Maharashtra State Farming Corporation (MSFC). Maharashtra also surrendered its universally acknowledged claim—until then—of the sugar cultivation in the state being the most efficient in the whole of our country. This was the genuine concern and the worst apprehension of all those that opposed the application of the Maharashtra Land Ceiling Act to lands under sugarcane owned or leased out by joint-stock sugar factories. And events since have only served to justify the concern and the apprehension. As irony would have it, it was given to Mr Bahubali Gulabchand, who was not among those that shared such fears, to confirm this in his address as President of the Deccan Sugar Factories' Association, Bombay (DSFA), a few days ago. In the course of his address, he cited certain statistics relating to sugarcane grown on the farms of the five factories, which are reproduced alongside.

It is not surprising that Mr Bahubali was stunned—anyone save the purblind is bound to be—at the consistency

also the government's 25 per cent cut in water supply to cane lands, but there is evidence to show that the resulting fall in cane production was rather moderate; in fact, officially, it has been stated that, despite the cut of 25 per cent in supply of water, cane production was affected adversely only to the extent of 4 per cent.

It is not only in recording this miserable performance that the MSFC has let down the sugar industry, in particular joint-stock factories, in Maharashtra, but also in demanding extortionate prices for the cane supplied to these factories, and the justifications advanced for these high prices are ridiculous, to say the least, even if such action is a travesty of past promises or assurances which seems to be in keeping with the present policy trend of the party in power. The first justification is that the MSFC is at liberty to charge higher price for the cane than that notified by the Government of India. The curious interpretation of the MSFC is that the assurance given by the government to the factories is only to the effect that the price to be charged would be the price governed by the notification of the Government of India. This, it is argued, does not bind the MSFC to charge only the price notified by the Government of India which is only a minimum price. Two questions arise as a sequel to this interpretation: One is whether this is not an after-thought, as Mr Bahubali put it. For, since its inception, the MSFC has been charging for the cane supplied by it to the factories only at the minimum prices notified under the Sugarcane Control Order. Last year it demanded an increase of 25 per cent over the prices notified by the Government of India, but it was prudent enough not to persist. Surely, there is no assurance involved in the assertion of the MSFC that the factories would not be charged a price lower than the price notified by the Government of India. Evidently, the MSFC has drawn its inspiration from the union Food Minister, who, after the Government of India had announced the wheat prices for procurement, told a press conference that if any state government paid higher procurement prices, the central government would not object.

Secondly, the MSFC has argued that, inasmuch as factories have even now been paying higher prices to other cane growers, they should not complain. But, as everyone knows, this is no new phenomenon. Besides, as with the MSFC, there has been no contractual obligation in so far as the other cane growers vis-a-vis the factories are concerned. This apart, the MSFC as an official agency cannot afford to behave in the same irresponsible way as a stray cane grower. And it cannot also forget that its action in seeking to raise prices so sharply is not exactly in tune with the state government's policy to hold the price line.

Disappointingly enough, this is not the line that Mr V. P. Naik, Chief Minister of Maharashtra, who inaugurated the DSFA meeting, took. Instead of roundly condemning the stark inefficiency of the MSFC, he told the DSFA: "You are going to make extra money out of the freedom to sell 40 per cent of your production in the open market and should not, therefore, grudge sharing a part of the profit with the MSFC". This is hardly becoming of the chief of a state which has been priding itself on its measures to hold the price line.

Now, what are the prospects of factories making extra money out of the free sales? The Government of India's insistence, as the DSFA president drew attention to, is on a minimum levy of 1.3 million tonnes or 60 per cent of the total sugar production. When the formula was first conceived, probably, this was all right. At that time, the estimated sugar production was expected to be as high as 2.2 to 2.5 million tonnes, but by the time the policy was announced, the estimates had fallen to 2.0 million tonnes or less and, today, knowledgeable circles do not put it at any higher than 1.8 million tonnes. On this basis, the factories would be left with hardly 500,000 tonnes and, on this small quantity, what would be the extra gain of the factories, after allowing for consumer resistance? In view of this, Mr Naik would do well to brief the MSFC to adopt a more reasonable attitude when it meets the sugar factories to settle this "domestic question", as he termed it.

Whatever may be the outcome of this "domestic question" meeting, joint-stock sugar factories in Maharashtra, it seems certain, must now be prepared to face uncertainties regarding sugar supplies, both as to quantum and as to price. If anything, the position is likely to worsen with the proposed amendment to the Land Ceiling Act, whereby it is sought to return to the original landlords the lands which they had leased to the sugar factories, and which have since come to form integral parts of the sugarcane farms, for their personal cultivation and production and supply of sugarcane to the factories concerned when the joint farming societies are formed. What is the guarantee that they will agree to supply cane to the joint-stock factories at the prices fixed by the government when the co-operative factories are prepared to offer, as, indeed, they are already doing, higher prices? And what also is the guarantee that when joint-farming societies are formed, they will not themselves constitute into a new co-operative sugar factory and decide to supply the cane to their own co-operative factory?

Experience has shown that, despite the so-called zones, it is the joint-stock factories whose traditional cane supplies have been affected, thanks to indiscriminate licensing of the co-operative factories. Despite production of reliable and authentic statistics concerning the actual availability of cane in the villages included in the zones of the DSFA member-factories, new co-operative units are licensed to operate in the same zones, thus adding to the over-concentration of factories, which is a highly wasteful pursuit. Yet, to the studied and sober appeal of the DSFA president to the authorities for an independent study of this vital problem by an impartial agency, Mr Naik repeated, parrot-like, the official answer that the zonal system is an absolute must to prevent imbalance in supplies of cane to all factories and that additional capacity would not be allowed without a thorough examination. No sensible person would object to a well-conceived and properly implemented zonal system, but what obtains in Maharashtra today is anything but sensible zoning, a zoning that is also heavily weighted against joint-stock sugar factories. It is high time, therefore, that an impartial agency investigated into this issue in the interests of a sound overall sugar policy for the country.

Why Bank Rate Increase Was Overdue

PAUL EINZIG

THE INCREASE in the Bank rate on October 19 was one of the least surprising Bank rate changes in Britain in recent years. What did cause surprise was that it was increased by $\frac{1}{2}$ per cent only instead of one per cent. It is a long-established tradition of the Bank of England to lower the Bank rate by $\frac{1}{2}$ per cent at a time and to raise it by at least one per cent. There was nothing in the prevailing conditions that would have justified the recent departure from traditions, nor was there any justification for delaying the change week after week throughout September and October. The delay is widely suspected of being due to political considerations. Possibly it was deemed inexpedient to raise the Bank rate shortly before, or during, or immediately after the Labour party's annual conference. So the long-overdue and much-needed measure had to be deferred.

M. Paul Reynaud's criticism of the various French devaluations during the late 'thirties on the ground that they were "too late and too little" fully applies to the $\frac{1}{2}$ per cent increase in the Bank rate on October 19. It became obvious ever since the publication of the trade figures for August which showed an adverse change in the balance of payments that official optimism about the prospects had been unwarranted. At the same time, the rising trend of the American interest rates clearly indicated the need for higher interest rates in London. In the absence of such action, sterling remained under almost constant pressure and the Bank of England had to support it in order to maintain it a fraction above its minimum support point of \$2.78.

The labour situation was quite obviously unsatisfactory. The wage freeze was followed by a bout of wage increases, while production remained static. Strike followed strike in many industries and members of the trade unions were even more trigger-happy than the officials of their unions, judging by the number of unofficial strikes and other forms of unofficial industrial action. The increase in unemployment flattened out during August and September, so that organised labour is no longer afraid of large-scale unemployment. Indeed the government repudiated the policy of maintaining a labour reserve for the sake of ensuring with the aid of it the smooth working of the economy. So it seemed probable that the autumn would experience a number of major strikes, which in addition to the effect of further unearned wage increases, was bound to cause deterioration in the balance of payments.

Warnings Ignored

Yet the government chose to ignore all the warning symptoms and delayed the increase in the Bank rate week after week, until it was able to do it at the politically least inconvenient moment. And when it did increase the Bank rate it managed to get the worst of both worlds. While it incurred more unpopularity at home, it failed to inspire confidence in sterling abroad. The foreign exchange market witnessed the unusual spectacle of a depreciation of sterling following an increase in the Bank rate. This was because, in the unanimous opinion of the market, the $\frac{1}{2}$ per cent increase was not enough. Having mustered enough courage to raise the Bank rate to seven per cent on two occasions, the Labour government panicked this time. As a result, the market reached the conclusion that the government does not dare to resort to adequate measures in defence of sterling.

The government was indeed ill-advised in resorting to a half-measure in face of the growing adverse trend. The increase to seven per cent, or perhaps even to 6 $\frac{1}{2}$ per cent, might have satisfied the market in that the government was determined to defend sterling. Personally I am satisfied that Mr Wilson and Mr Callaghan are not thinking in terms of devaluation. But it is not enough to be determined to defend sterling at its

present parities. They must be seen to be determined to defend sterling at its present parities. With the best will imaginable the hesitant and inadequate increase in the Bank rate cannot be regarded as an indication to that effect.

In the absence of such indication the pressure on sterling is likely to continue, even if there is no cause to expect another major crisis in the near future. Possibly the government may feel impelled to raise the Bank rate once more in the near future. It is to be hoped that, having learnt its lesson from the failure of its half-measure of October 19, on the next occasion the Bank rate will be raised by full one per cent.

But possibly the government is merely marking time, pending the elaboration of alternative devices for the defence of sterling. Hence the inadequacy of its defensive measure on orthodox lines. There are growing indications that the government is flirting with the idea of mobilising some privately-held dollar securities in order to increase the official reserve. The need for a substantial repayment to the IMF in December may be used as an excuse for meeting current requirements out of capital resources.

Voluntary Agreement

I doubt if the government would dare to go so far at the present stage as to commandeer privately-owned securities in time of peace. What is freely envisaged is some "voluntary" agreement with institutional investors to induce them to relinquish part of their holdings. The government has the means to bring pressure to bear on investment trusts, insurance companies and other large holders. In any case British financiers and businessmen have showed themselves too timid to stand up to the government even to a fraction of the extent to which trade unions stand up to it.

The danger is that voluntary arrangement would be the thin end of the wedge. It would provide an extremely dangerous precedent which would point towards a compulsory commandeering of foreign investments on a large scale. Once the government has shown its supporters that there is such a painless alternative to unpleasant deflationary measures it would not be in a position to resist pressure in favour of resorting to that device to an increasing extent. With the aid of the funds thus mobilised it would be in a position to tolerate more inflation and bigger balance of payment deficits, until the marketable foreign security holdings of private investors have been exhausted. The deficit of the balance of payments would of course increase progressively, not only because of the decline in dividends on foreign investments, but also because a relaxation of measures in defence of sterling would tend to increase domestic consumption.

There are, however, enough marketable investments in private possession to enable the government to pursue this disastrous policy until the next general election in 1970 or 1971, which is what really matters to the politicians. However this may be, it means that if Mr Wilson is really determined to avoid devaluation, he is in a position to avoid it for years to come, so that sterling is in no imminent danger.

Once the government announces its new policy, fears of an early devaluation would subside. Sterling would remain subject to selling pressure as a result of the continued adverse balance, but the deficit would be met out of the liquidation of foreign capital investments. In the short run the crisis would be avoided. But Mr Wilson would leave to his successor a legacy of depleted secondary reserves and of a demoralised economy living on its capital instead of trying to make both ends meet.

PLAN YOUR
MACHINE TOOL
PURCHASES

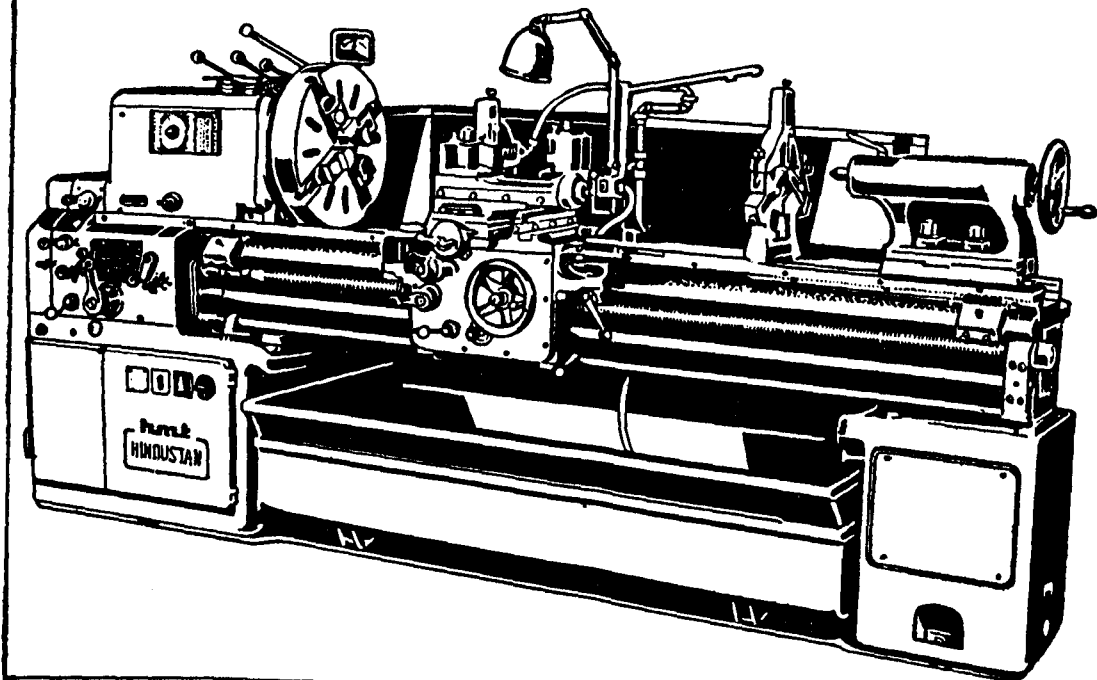
NOW

For Rs. 8,620 down
BUY AN
HMT H 22
HIGH SPEED LATHE

Under HMT's deferred payment plan, delivery of H 22 high speed lathes is available for an initial deposit of Rs. 8,620 only. The balance can be paid in ten easy instalments over five years and you can deduct depreciation on the full value.

Tungsten carbide tools and high spindle speeds reduce cutting time to one-eighth on this versatile general purpose sliding, surfacing and screw cutting lathe. High speeds, precision turning and high surface finishes make the H 22 an ideal lathe for volume production. Plan one for your shop.

Also available on similar terms are cylindrical grinders, radial drills and LB lathes.



Write today for further details to:

HMT

HINDUSTAN MACHINE TOOLS LIMITED

Bangalore-31

Factories at Bangalore, Pinjore, Kalamassery & Hyderabad

IND. HMT. 7289



Elegance and Durability - The warp and weft of Binny quality



The wide range of shirtings, suitings and dress materials which **BINNY** offer has the traditional built-in elegance and extra durability for which Binny fabrics are so famous.

Take the guess-work out of buying clothes and take home dependable fabrics woven by **BINNY**. You can be sure they'll last and last.

The Buckingham & Carnatic Company Limited
A subsidiary of Binny & Co., Limited, Madras

BINNY

a great name
in textiles

by-4264

Wanted: Smelters for Non-Ferrous Metals

MANUBHAI SHAN

IN THE modern world, one can hardly find any article of daily use which has not got some parts of metal. You ring the bell for the bearer—the bell is made of non-ferrous metals. Then you have your morning tea. The spoon and the container and the kettle for boiling water are all made of metal. All articles which look bright are usually coated with chromium and nickel; these are all non-ferrous metals. Thus it can be easily seen that metals play an important role in our daily life so as to make our lives more comfortable. Any volume of synthetic products and plastics which might be produced would still leave a very wide sector of the world economy for the use of non-ferrous metals.

Among the various non-ferrous metals, aluminium, lead, zinc, tin, manganese, chrome, nickel and antimony are used in substantial quantities. As a country makes economic progress, the use of various non-ferrous metals is also increased. The consumption of various non-ferrous metals in any country is a sure index of its industrial progress and the standards of living of the people. Hence it is imperative that we apply our minds, particularly for the engineering industries, to the production of non-ferrous metals. We cannot afford large foreign exchange expenditure on huge imports of non-ferrous metals from year to year.

Our present annual requirements of aluminum, copper, lead and zinc are of the order of Rs 135 crores at current international prices; this is expected to rise to about Rs 300 crores by 1970.

The annual production of all non-ferrous metals in our country at present is hardly worth Rs 45 crores and over Rs 90 crores worth of metals are imported every year. In view of the limitations of foreign exchange, many of the industries consuming non-ferrous metals have only a part of their capacity being utilised. Our current annual consumption of non-ferrous metals is estimated at about 135,000 tonnes of aluminium, 60,000 tonnes of copper, 65,000 tonnes of zinc and 45,000 tonnes of lead. Against this, the country is expected to produce about 90,000 tonnes of aluminium, 10,000 tonnes of copper and 3,000 tonnes of lead and about 9,000 tonnes of zinc this year.

Fortunate Position

We are fortunate in the case of aluminium. We have already established smelting capacity for aluminium up to 115,000 tonnes a year in the country comprising 36,000 tonnes of Indian Aluminium, 60,000 tonnes of Hindustan Aluminium, 10,000 tonnes of Madras Aluminium and 7,500 tonnes of Aluminium Corporation.

In addition the following programmes for production of aluminium are under way:

Expansion of Hindustan Aluminium Corporation from 60,000 tonnes per annum capacity to 120,000 tonnes per annum capacity.

Installation of a new unit by Indian Aluminium Co. Ltd for an ultimate annual capacity of 100,000 tonnes.

Expansion of Madras Aluminium Co. Ltd to reach a total capacity of 25,000 tonnes per annum.

Expansion of Aluminium Corporation of India Ltd to reach an ultimate capacity of 12,500 tonnes per annum.

J. K. Industries (Pvt) Ltd, Kerala is setting up a new unit in Kerala with ultimate capacity of 30,000 tonnes per annum.

The Koyna and Korba aluminium schemes in the public

sector envisage establishment of aluminium smelters with capacities of 50,000 tonnes and 100,000 tonnes respectively.

Thus the total capacity for aluminium production will come to 450,000 tonnes if all the above schemes materialise. According to the production programmes of the various units, the country can expect a total smelter capacity of 220,000 tonnes by 1970 and the entire 450,000 tonnes may materialise by the end of the fifth five-year Plan. Against the annual availability of 210,000 tonnes of aluminium by the end of the fourth Plan, the forecast of the annual demand then is of the order of 260,000 tonnes. Thus, there will be a gap of 50,000 tonnes of aluminium to be met by imports. This position, however, will ease during the fifth five-year Plan when the two public sector aluminium undertakings are likely to be commissioned. The demand for aluminium by the end of the fifth Plan is expected to be of the order of 400,000 tonnes as against the total availability of aluminium at 480,000 tonnes. We should thus be able to export about 80,000 tonnes of aluminium metal or its products. We are thus somewhat fortunate so far as aluminium is concerned.

There is only one smelter at present (of the Indian Copper Corporation) which is producing about 10,000 tonnes of copper. Till the middle of 1965 it produced only fire-refined copper but its electrolytic refinery to make conductor grade copper was commissioned towards the last quarter of 1965 with a capacity of 8,400 tonnes per annum and it is regularly producing electrolytic copper since then. Even though the scheme for expansion of the copper smelter to 16,000 tonnes is making progress it would take another three years from now when we may expect production up to this limit.

Shortage of Copper

The Khetri copper project in the public sector will have a capacity of 21,000 tonnes per annum with its associated electrolytic refinery. This unit is expected to be commissioned for production by the end of the fourth Plan. According to present indications, barring the Ghatshila copper unit and the copper smelter at Khetri, there is no immediate prospect of any other unit coming up in the country. As a matter of fact, in spite of all the switch over from copper to aluminium, it seems that we shall still be extremely short of copper. Against an estimated annual production of 15,000 tonnes of copper by the end of the fourth Plan, our annual requirements of copper then would be 175,000 tonnes. By the end of the fifth Plan, unless large deposits of copper are discovered, surveyed and mined, there is no possibility of more copper being produced in the country whereas the unavoidable consumption of this metal will continuously increase. By the end of the fifth Plan, i.e., in 1975-76, our annual production of copper may be about 40,000 tonnes against a demand which is expected to go up to 250,000 tonnes per annum. This is a disappointing picture. The annual import of copper may cost us Rs 115 crores of foreign exchange a year till 1970 and Rs 150 crores of foreign exchange by the end of the fifth Plan.

Hitherto, all the zinc concentrates which were available from the Zawar mines in Rajasthan, were exported to Japan for conversion on toll basis while the lead concentrates were sent to the indigenous smelter at Tundoo in Bihar for conversion into lead.

Recently, a second zinc smelter with an installed capacity of 20,000 tonnes has been commissioned at Cochin which will be producing electrolytic quality zinc. The initial production of zinc at Cochin is expected to be about 900,000 tonnes this year. This project is based on imported zinc concentrates.

Hindustan Zinc Ltd, a public sector undertaking with an installed capacity of 18,000 tonnes per annum, is expected to be commissioned soon at Zawar; the zinc concentrate for this

smelter will be obtained from the Zawar mines. The lead concentrates from the Zawar smelter will be sent to Tundoo in Bihar for production of lead. Indications are that the Hindustan Zinc Ltd, will produce about 20,000 tonnes of zinc by the end of the fourth Plan and the Tundoo smelter will produce about 4,000 tonnes of lead per year by then.

Besides these two zinc smelters, there is so far no indication of zinc ores being obtained in the country. Zinc, being a versatile metal required for several purposes, will continue to be in demand in increased quantities by different industries. It is estimated that the annual consumption of zinc will go up to 130,000 tonnes by the end of fourth Plan and 200,000 tonnes by the end of the fifth Plan. Thus practically the bulk of the requirements of zinc will have to be imported from abroad, causing heavy strain on foreign exchange resources. It also applies to lead because generally zinc and lead ores go together.

Thus the position of non-ferrous metals in our country is highly unsatisfactory. We have to take certain measures in terms of intense prospecting, surveying and mining of metal ores by according it high priority. Our country has now proven resources of 250 million tonnes of bauxite out of which 100 million tonnes is of the metal grade (above 45 per cent Al₂O₃). With the increased consumption of bauxite accompanied by the achievement of the target of about 250,000 tonnes of production of aluminium by the end of the fourth Plan and 450,000 tonnes by the end of the fifth Plan, the efforts in regard to the prospecting of bauxite and its extraction will have to be intensified.

'Operation Hardrock'

Our country has already entered into an agreement with the USA for prospecting and carrying out aerial survey for non-ferrous metals. This is known as 'Operation Hardrock' and the work is already in progress. The government has recently approved a foreign collaboration for intensified mineral prospecting. All this has to be followed up because an annual burden of foreign exchange of Rs 210 crores or more per year due to the imports of metals cannot be borne by our country. The table below shows the gap between availability and demand.

The annual availability of all non-ferrous metals by 1970 will be about Rs 130 crores as against the demand of Rs 300 crores, leaving a balance of Rs 170 crores worth of metals to be imported. By the end of the fifth Plan, i.e., by 1975, the internal availability of metals is expected to rise to Rs 250 crores against the demand of Rs 460 crores, leaving a huge gap of Rs 210 crores worth of foreign exchange to be filled through imports.

It needs to be stressed that no country in the world is

GAP BETWEEN AVAILABILITY AND DEMAND OF VARIOUS METALS

Metal	Year	Availability (tons)			Demand (tons)	Imports	
		Production	Scrap	Total		tons	value
Aluminium	1970	2,20,000	20,000	2,40,000	2,60,000 +30,000 (Exports)	50,000	(Rs. crores) 20
	1975	4,50,000	30,000	4,80,000	4,00,000 +80,000 (Exports)	—	—
Copper	1970	15,000	18,000	33,000	1,75,000	1,42,000	115
	1975	40,000	24,000	64,000	2,40,000	1,76,000	150
Zinc	1970	38,000	—	38,000	1,30,000	92,000	20
	1975	38,000	—	38,000	2,00,000	1,62,000	35
Lead	1970	6,000	15,000	21,000	1,05,000	84,000	15
	1975	10,000	25,000	35,000	1,57,000	1,22,000	25
Total	1970					Imports	Rs. 170 crores
	1975					Imports	Rs. 210 crores

blessed with all the necessary minerals for various metals and that it will not be correct to base our production of metals only on the mineral ores which are available in the country. Canada imports bauxite from Africa and other countries and it is one of the biggest exporters of aluminium metal and its products. Japan imports coal, iron ore, steel scrap, copper, zinc concentrates and ferro manganese and many other raw materials and still competes very favourably in the international metal markets and exports huge quantities of iron, steel, metals, alloys and metal products.

Thus, on the one hand we must concentrate our efforts on rapid geological surveys and probing of different regions in order to have the mining of indigenous ores as much as possible; simultaneously we must prepare projects for the production of metals and alloys even from imported ores and concentrates. Our industrialists should therefore consider the question of setting up smelting plants for metals and alloys in the country based on imported ores and concentrates, wherever feasible and economic. With regard to zinc, copper, lead and tin it may be possible that by certain trade agreements between different countries who have these ores in abundance, we may import the concentrates and set up metal producing smelters in different parts of the country, particularly in port towns.

I am convinced that the production of metals from imported ores will always be profitable in the long run than continuously importing the metals, particularly in view of our big electric and power generation programmes. The electro-metallurgical industries can offer profitable and economic big basic loads and good load factor. The state electricity boards should offer attractive power rates for the setting up of such units.

Even though the foreign exchange saving in the beginning would be small, we would be able to switch over to indigenous ores the moment they are located and proved in the country, if only the capacity for metal smelting is already established. Copper ore and concentrates can be negotiated from Turkey, Spain, Rhodesia, Chile; lead ores and concentrates from Burma, Australia, Bolivia; zinc ores and concentrates from Belgium, Australia, Sweden and antimony ores from Bolivia, Turkey and Peru.

This is a matter of the highest importance to our foreign exchange budget and our economy. We should, therefore, formulate and implement a well-drawn-up perspective plan for production of metals in the country so as to reduce the import bill on metals.

Towards Prosperous Agriculture

R. C. UMMAT

CAN WE achieve self-sufficiency in food in the near future? This question is often posed by the man in the street who has been put to great hardship by the soaring prices of foodgrains during the last two years.

As the goal of self-sufficiency in food has proved elusive right since 1954 when we were just about to grasp it, the public is sceptical about our achieving it by 1970-71, the new target date fixed by the government for attaining it. The agricultural scientists and the progressive farmers, however, do not share this pessimism; they are quite optimistic that the recent technological breakthrough in agriculture, especially in the case of food crops, will enable us to accomplish this "miracle" soon. My recent visit to the Uttar Pradesh Agricultural University (UPAU), on the portals of the Kumaon Hills, about 40 miles west of the hill resort of Nainital, during which I had an opportunity to study at first hand the strides taken by the UPAU and the transformation brought about by it in the neighbouring tarai region since 1962, when I first visited this area, has convinced me that the goal of self-sufficiency in food, even by 1970-71, is no dreamy idea. Within a span of five years, the UPAU, modelled on the land-grant colleges of the United States and assisted extensively by one such college, the University of Illinois, has transformed the agricultural economy of the not-long-ago reclaimed tarai region beyond recognition.

Losing Proposition

Five years ago farming in this area was not much of a remunerative business; it was even a losing proposition for many. Because of heavy rainfall, paddy cultivation predominated on an annual crop basis. It gradually yielded place to sugarcane, another annual crop. Thanks to the extension work undertaken by the UPAU and the dizzy heights wheat and millet prices scaled during the last two years, paddy, and even sugarcane cultivation no longer hold the pre-eminent position in this area. Paddy is now grown only in the low-lying fields. Sugarcane has come to be styled "a lazy man's crop." Farmers are fast taking to the cultivation of such food crops as wheat, maize and bajra and the newly introduced commercial crop of potatoes. The change in the cropping pattern has helped in reaping two crops instead of one in a year. The high-yielding varieties of seeds have pushed up the output substantially; whereas an acre of land yielded about a tonne of foodgrains at the maximum some three or four years ago, now four grains at a maximum per acre is a distinct possibility. Many have got this yield already; others have at least doubled their output. If efforts are concentrated on cultivating some 45 million acres of irrigated or assured rainfall arable lands in the country with the new high-yielding varieties of rice, wheat, maize, jowar and bajra, we not only can push our production of foodgrains to 120 million tonnes, required by 1970-71, but will also be able to spare increasing acreages of land for growing vegetables, fruits and such important cash crops as cotton, jute, tobacco, oilseeds, sugarcane, etc.

The concentrated effort, however, requires an energetic organisational set-up. The present bureaucratic machinery of the government is slow moving; its methods of work are too time consuming and complicated. It was, indeed, intriguing to find that many of the progressive farmers in the tarai region have not been able to avail of the government or co-operative credit facilities. One reason for this might be that they have not yet been granted proprietary rights, although the tarai region was reclaimed nearly two decades ago. They, thus, cannot secure loans against the surety of their land holdings. But a more important reason is stated to be the cumbersome procedures of getting credit from the governmental or co-operative

agencies. Another instance of the slow methods of the bureaucratic set-up is that although the UPAU had offered large quantities of new seeds to the government for distribution among the farmers of the state, they were not lifted in time. The UPAU had to advertise the easy availability of these seeds with it. But even now it will be presumptuous to assume that all the available quantities of seeds are finding their way easily to the furrow.

So far as the credit difficulties of the farmers are concerned, provision of credit against crops may provide the answer. The State Bank of India is expected to participate in this programme, but it has not been able to do so till now. A beginning perhaps will be made in the near future. The UPAU is shortly organising an orientation course for imparting training to State Bank officials in extension of credit for agricultural purposes.

More promising for meeting the growing capital requirements of the agriculturists in its neighbourhood and also for the further development of the tarai region, however, is another scheme sponsored by the UPAU. Known as "Integrated Agricultural Development Project Tarai (UP)", this scheme envisages setting up of the Tarai Development Corporation in which will participate as shareholders the tarai farmers, the National Seeds Corporation, the State Agro-industries Corporation, the co-operatives (both on the state and national level) and the UPAU. Estimated to cost about Rs 20.6 crores over its initial operation period of 10 years, nearly half of this sum in foreign exchange, the project will cover an area of 60,000 acres



in the Nainital and Rampur districts. Nearly 20,000 acres will be brought under seed cultivation. The seed cultivation programme is proposed to be completed in four years at the end of which slightly over 50,000 tonnes of seeds—11,200 tonnes of hybrid maize, 600 tonnes of hybrid bajra and sorghum, 6,400 tonnes of paddy and 32,000 tonnes of high-yielding varieties of wheat—will be available annually to be sown in about 2.4 million acres for commercial cultivation. The addition to food-grains output may be of the order of about 1.5 million tonnes annually. The project is all-embracing; it envisages not only the development of land resources through the creation of irrigation facilities, provision of nucleus and foundation seeds, fertilizers, insecticides, pesticides, weedicides, technical guidance, etc., but also provision of seed processing, storage and marketing facilities and supply of credit for them. Assistance from the World Bank is being sought for meeting the foreign exchange cost. Two World Bank teams have already gone into the project. A third one is expected to arrive here soon to finalise it. If the project is implemented as envisaged, it will help in raising the output of the improved seeds to the target level of five crores of rupees; the UPAU from its own 12,000-acre farm (1,000 acres under experimental station) and the approved private seed farms in its vicinity produced this year seeds worth two crores of rupees, compared to Rs 86 lakhs worth last year.

Problem-Oriented Research

In the research field, the UPAU has already a number of achievements to its credit. Its research being problem-oriented, it has adjusted its vacation programmes in such a way that the sowing and harvesting seasons do not coincide with vacations as was the case in agricultural colleges not long ago. A major contribution of the UPAU to paddy cultivation, not only in the tarai region but also in the international field, is what has been named as "zinc spray". Deficiency of zinc in soil, it has been found, is one of the limiting factors to the high yields of paddy. Two zinc sprays—once at the sapling stage and the second time soon after transplanting—it has been discovered, obviate rusting of paddy plants and thus increase yield. In the case of wheat, the UPAU has developed more or less simultaneously with the Ludhiana University and the Indian Agricultural Research Institute, Delhi, an amber-coloured wheat variety—S-308—from the Mexican parents. As regards maize, it is currently experimenting with dwarf hybrids which will not "lodge" and would be amenable to thicker sowing than is possible with the present hybrids. Research is also being conducted for improving vegetable and fruit growing. Animal husbandry is also not neglected.

But the research conducted by the UPAU in two other crops—soyabeans and sugar beet—may prove of much greater significance for the tarai region at none-too-distant a future. The versatile soyabeans, which were described by Henry Ford some four decades ago as "the crop of the future" have been experimented with in the farms of the UPAU successfully. Yields up to 40 maunds an acre have already been secured. Soyabeans, a crop of the temperate and sub-tropical region, has, of course, been grown in the hilly areas for long under the name "Bhat", but not extensively. Its uses in the manufacture of antibiotics, vegetable oils, soap, etc., in the recent past has brought forth many a dependable customer who is prepared to lift the entire crop at reasonable prices. The growing consciousness about protein deficiency in our diet and the high prices of edible oils augur well for this protein and oil-rich (protein 40 to 45 per cent and oil 20 to 25 per cent) crop. Commercial cultivation of soyabeans in the tarai region is expected to be taken up in about two years when the experiments with disease control are over. Next year some 15,000 acres are expected to be brought under soyabeans.

The successful experiments with sugar beet hold out a

hopeful promise for our sugar industry. Sugar beet, however, will not be able to supplant sugarcane cultivation, for our crop, unlike the crop in Europe, will be of about two months' duration (In Europe, it is of four months; besides there are good storage facilities there). Sugar beet, which contains nearly 18 per cent sucrose content as against 9/10 per cent in sugarcane, will help in extending the sugar manufacturing season in Uttar Pradesh by about two months. Being a five-to-six months crop, as against the 12-month sugarcane crop, sugar beet can also allow better utilization of land. The additional investment required to modify our sugar manufacturing units is not considered heavy. Only addition of a diffusion plant is required; it may cost five to six lakhs of rupees.

Farmers' Digest

With a view to reaching out to a larger number of farmers and also for making its extension service more effective, the UPAU has done well in planning to bring out from January next a Farmers' Digest, first in English and later on in Hindi. The digest will cater to the needs of progressive farmers on the country-wide basis. Another important scheme envisages the setting up of a broadcasting station on the campus with assistance from All India Radio (AIR). This broadcasting station will cater to the needs of the farmers within a radius of 100 miles. The engineers of AIR have already examined the feasibility of this scheme.

With a view to broadcasting its teaching programmes, the UPAU has recently introduced three other engineering courses also. These are: mechanical, electrical and civil engineering. The UPAU authorities feel that with the introduction of these courses, they have not only been able to provide additional facilities for students going in for engineering, but by creating these facilities they are assisting the growth of consciousness among our young engineering graduates about the needs of the farmer. The growing mechanisation of our agriculture, electrification of our countryside and the need to improve the housing and transport facilities in the rural areas, they opine, warrant teaching of the mechanical, electrical and civil engineering courses adjacent to the teaching of the agricultural science.

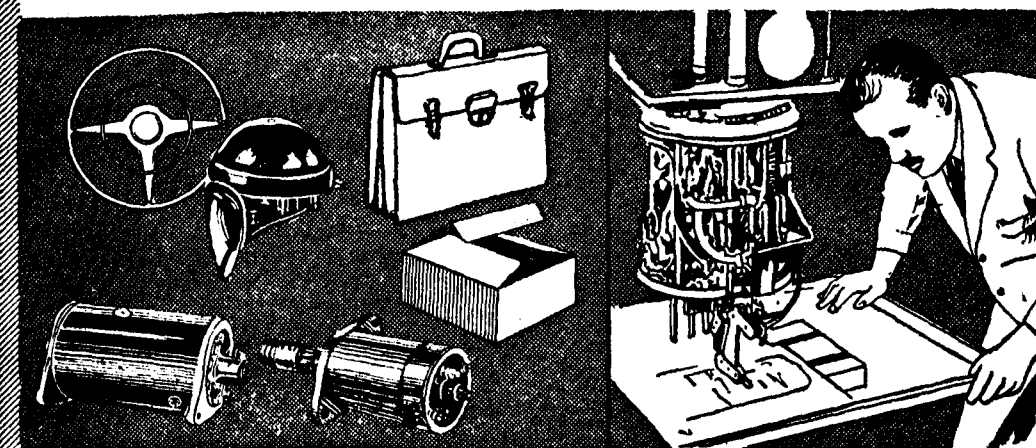
The UPAU is fast changing the face of the tarai area. Along with its sister institutions elsewhere in the country, it should bring new hopes for our down-trodden peasantry.

Eastern Economist 20 Years Ago

NOVEMBER 7, 1947

The position in respect of wheat particularly deserves notice. Among total imports running at about 2.25 to 2.3 million tons a year, we import about 1.18 million tons of wheat, if the figure for 1946 is considered a reasonable target. Last year, i.e., in 1946-47, this demand formed part of the total world demand for wheat and coarse grains, of the order of 38 million tons. Last year, the gap between world supply and demand was estimated at 12 million tons. This year, the gap is not much wider. This enables us to judge the recent price increases in the proper perspective. International profiteering in foodgrains is no new phenomenon. Most administrations and public men are vaguely aware that it exists. It affects the United Kingdom quite as much as it affects India: in fact drastic reductions have been demanded unofficially by Ministry of Food spokesmen in England.

DENA BANK GIVES A HELPING HAND TO SMALL-SCALE INDUSTRIES



Dena Bank is helping many enterprising entrepreneurs who are working to establish Small-Scale Industries. Do you need help to start an ancillary industry? Come to the Dena Bank, we will give you advice and financial assistance on easy terms and conditions.

Serving the nation with over **180** Branches in **12** States.

TOTAL WORKING FUNDS
EXCEED
Rs. 100 CRORES



DENA BANK LTD.
Regd. Office: Devkaran Nanjee Buildings,
17, Horniman Circle, Fort, Bombay-1.
PRAVINCHANDRA V. GANDHI Mg. Director.

In DELHI our 6 Offices at:

* Connaught Place * Chandni Chowk * Subzi Mandi * Karol Bagh * Daryaganj * G. B. Road.

Don't let shrunk clothes hold you back

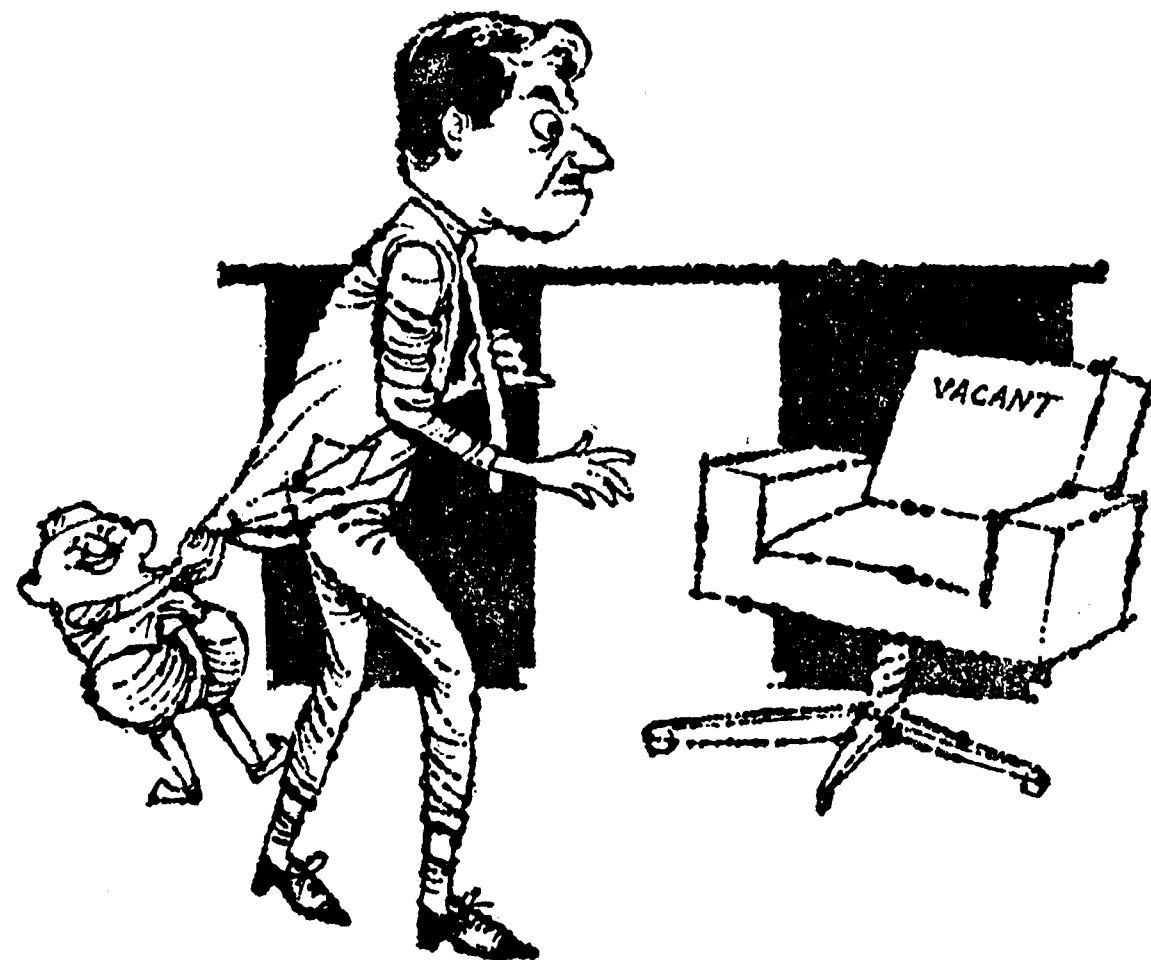
You hope to advance steadily in your career. Bad grooming—often the result of ill-fitting clothes—can impede your progress. Don't let Mr. Shrink hold you back.



Get your clothes tailored only from cottons and cotton blends bearing the label 'SANFORIZED'

This famous trademark—known the world over and helping importantly to boost the export of Indian fabrics—is your assurance against shrinkage. Depend on it. And fabrics labelled 'SANFORIZED' never need soaking before tailoring. Look for the label on every fabric you buy.

Issued by Cluett, Peabody & Co. Inc. (Incorporated in the U.S.A. with limited liability) proprietor of the registered trademark 'SANFORIZED'. The proprietor uses this trademark or permits its use by registered users, only for tested fabric which meets its strict residual shrinkage requirements.



7729 SAN. 6230

FROM THE CAPITAL'S CUPBOARD

Management of Sick Textile Mills

THE PROVISIONS of the bill now finalised by the central government for the management or liquidation of mismanaged textile mills are somewhat different from those initially incorporated in it by the Commerce Ministry. The changes have been made at the instance of the cabinet which, after considering the original draft bill at two of its meetings in August, directed the ministry that "instead of taking powers for the permanent acquisition of mills at the market value, the bill should provide for the compulsory acquisition of the controlling interests in the share capital by the government". The revised legislation, entitled the Cotton Textile Companies (Management of Undertakings and Liquidation or Reconstruction) Bill, was approved by the cabinet at its meeting early in October.

Fuller details of the provisions of the bill are now available. Under the Industries (Development and Regulation) Act, the government can take over such of these mills as are badly managed and appoint authorised controllers to run them. The new bill provides for two other alternative courses of action:

(i) sale of the undertaking as a going concern by public tender at a reserve price approved by the government or at a higher price (government purchasing it at the reserve price where no offer at or above such a price is received), action being taken simultaneously for the winding up of the textile company; and

(ii) reconstruction of the textile company and acquisition by the central government of 51 per cent or more of the shares of the reconstructed company.

Government's Discretion

The proposed bill enables the central government to call for a report on the affairs of the working of the company at any time after the undertaking has been taken over by the government under the Industries (Development and Regulation) Act, with a view to deciding which of the three alternative courses of action should be taken.

If the central government, on a consideration of the report and other circumstances of the company, finds that the company is not in a position to meet all its liabilities out of its liquid assets, it may decide in favour of selling it as a running concern, starting proceedings simultaneously for winding up of the textile company.

On the other hand, the central government may decide that in the public interest or in the interest of the shareholders or for the proper management of the textile company, a scheme of reconstruction of the company should be prepared with a view to giving the central government at least 51 per cent share in the reconstructed company.

The bill lays down the course of action to be adopted by the government in the event of its deciding that the undertaking should be sold as a running concern and that the company should be wound up. It empowers the authorised person to apply to the High Court for the winding up of the company and for discharging the functions of management of the undertaking as a running concern "while functioning as official liquidator in the winding up proceedings of the textile company as if he were an official liquidator."

This provision is intended to ensure that the authorised person who has got the necessary experience and knowledge of the undertaking may continue to run the unit till it is actually sold or purchased. Thereafter he will cease to discharge the functions of the liquidator which will be taken over by an official liquidator appointed by the court in accordance with the provisions of the Companies Act.

This provision also requires the authorised person to suggest to the central government a reserve price for the sale of

the undertaking as a running concern having regard to all relevant factors such as the financial condition of the company, the condition of the plant and machinery and the total amount of its liability including terminal benefits, if any, to its employees.

The reserve price suggested by the authorised person is subject to the approval of the central government after considering representations, if any, from the members and creditors of the company. The authorised person will thereafter with the permission of the court invite tenders for the sale of the undertaking, on condition that the highest price offered shall not be less than the reserve price. The court cannot refuse permission for inviting tenders in this manner if it is satisfied that the textile company is not in a position to meet all its liabilities out of its liquid assets.

Where no offer of price equal to or more than the reserve price is forthcoming, the undertaking will have to be purchased by the central government at the reserve price. The amount realised from the sale of the undertaking and any other sums that may be realised will be utilised in discharging either wholly or in part the existing liabilities of the textile company and distributing the balance, if any, among the members of the company. The undertaking of the company would thus pass on to the highest bidder or to the government at the reserve price, free of all existing liabilities.

The draft bill sets out the procedure to be followed where the government decides to reconstruct the textile company. The scheme will inter alia contain provisions for:

(i) the reduction of interests or rights which the members and creditors have in or against the company before its reconstruction to the extent considered necessary in the public interest or in the interest of members and creditors or for the maintenance of the business of the company; and

(ii) for increasing the capital of the company by issue of new shares and the allotment of such new shares to the central government, subject to the condition that the total shares allotted and acquired by the central government will not be less than 51 per cent of the total share capital of the company.

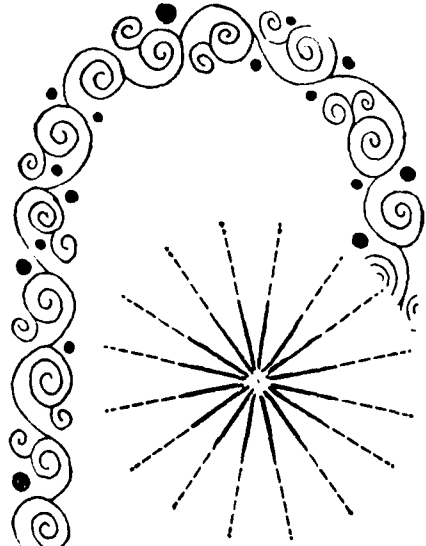
After approval of the scheme by the central government, it will be placed before the High Court for its sanction. It would be open to the court to sanction the scheme without any modification or with such modifications as it may consider necessary. On the coming into operation of the scheme, the authorised person will cease to function and the management of the reconstructed company will be assumed by a board of directors as provided for in the scheme.

REHABILITATION OF REPATRIATES

The former Commerce Minister, Mr Manubhai Shah, will head a high-powered board to (a) co-ordinate rehabilitation activities in the eastern part of the country, (b) to complete the remaining work pertaining to the rehabilitation of displaced persons from West Pakistan and (c) make proper arrangements for the resettlement of repatriates from Ceylon.

Under the Indo-Ceylon Repatriation Agreement about 5,20,000 Indian nationals in Ceylon will start returning home from next January. Their repatriation has to be completed within 15 years. This, in fact, will be the most important part of the work that will be entrusted to the new board.

Meanwhile, the central government has approved a scheme (estimated to cost Rs 1.04 crores) for the rehabilitation of 990 migrant families from Ceylon, Burma and East Pakistan in the Sindhanur Taluk of Raichur district in Mysore. About 5,020 acres of private land is being acquired for this purpose.



It is time now
to start a
**FESTIVAL
ACCOUNT**
for the next
Diwali.

Monthly deposit
of Rs. 5/- over
the next year will
yield Rs. 61 50
in time for the
next Diwali.

Deposits of
higher amounts
in multiples of
Rs. 5 - are
also accepted.

**United Bank
of India Ltd.**

Regd. Office:
4, Clive Ghat Street,
Calcutta-1.

THE BANK
WITH
SERVICE
PLUS

OUR BRANCHES IN DELHI

- | | |
|--------------------------|--|
| 1) 12/4, Asaf Ali Road; | 3) 90/8, Connaught Circus; |
| 2) 48-49, Chandni Chowk; | 4) Hotel Oberoi Intercontinental,
Wellesley Road. |

WINDOW ON THE WORLD

Impact of Automation on Education

JOSSLEYN HENNESSY

U.S.A. PIONEERS THE WAY

LONDON:

MANY PEOPLE believe that the technological changes which are revolutionising the industrial nations are a new phenomenon—an abnormal condition of industrial society. This is historical nonsense. Technological change existed in the mists of time long before some forgotten individual discovered that it was easier to move goods by placing them on a frame supported by wheels rotating on axles rather than to carry them on his back. But the speed with which many of the inventions were adopted depended on the prevailing social attitudes towards change. The classical Greeks knew all about the steam engine in the fourth century B.C., but they never put it to industrial use because the ambitious turned to politics, the army, and farming which carried high social status, while businessmen were despised as money-grubbers. The climate of social opinion favoured entrepreneurs in the 18th century England, so change gathered pace. All changes create new problems, and the faster the rate of change, the more baffling do they at first seem to be. For centuries, people dwelt amidst filth and stench in the winding lanes of mediaeval towns, the population of which was kept down by plagues. These insanitary conditions were taken for granted—until at long last the pressures of rising population and urbanisation that accompanied the Industrial Revolution began to make them intolerable. But no solutions were possible until the iron drain had been invented and until—progress in medical knowledge began to disclose the laws of hygiene.

New Problems

Today, the rapid advance of automation and computers is creating new problems of employment and the redeployment of workers at a pace which, in the USA, has largely broken down the existing machinery of labour exchanges for marrying skills to job vacancies, and which has brought to light deficiencies in the educational system and in housing, previously taken for granted because nobody knew how to cope with them. But intensified technological advance now renders these conditions intolerable.

Just as it took decades in the 19th century to develop public hygiene and town planning, so it may be years before acceptable solutions for the educationally backward and the socially disadvantaged living in slum areas can be found.

Since the USA has pioneered automation, it is pioneering the new techniques of marrying skills and jobs. In the 1950's alone US firms spent over \$300,000 million on new plant and equipment. Between 1947 and 1963 productivity in the non-agricultural sector rose by 2.4 per cent per annum compared with the long-term rise of 2.1 per cent. The motor industry offers a striking example of the impact of labour saving devices: 7.8 million cars were produced in 1964 with 16.6 per cent fewer workers than were needed to produce the same total in 1955.

The USA's postwar growth was interrupted in 1949, 1954, 1957 and 1960. Each of these recessions left a residue of unemployed who by 1961 totalled seven per cent of the labour

force. Unemployment was concentrated among the lesser-skilled and minority groups. By the mid-1960's unemployment had fallen to 3.6 per cent, yet simultaneously shortages of manpower were revealed in various occupations. It became important to tap the millions in ghettos and inner-city areas, whose education was inadequate for employment in the new technologies.

The first attempt to cope with this problem was the Area Redevelopment Act (ARA) of 1961, followed, as its magnitude and diversity became apparent, by the Manpower Development and Training Act (MDTA), the Economic Opportunity Act, the Comprehensive Manpower Programme Systems, On the Job Training and others. Each of these were largely improvised ad hoc measures to deal with a particular group of disadvantaged workers, e.g., youth entering the labour market, welfare recipients, technologically displaced, chronically unemployed and older workers. Total expenditures authorised on the confusing network of agencies that had been created was over \$2,000 million in 1966.

Original Idea

The original idea of the ARA and the MDTA was to train workers for jobs that existed. The US Employment Service carried out job-vacancy studies at a time when unemployment was fluctuating between five and seven per cent. The initial aim, merely to train the technologically displaced, meant that the employment standards of existing jobs decided the composition of the trainee groups. It followed that the early trainees were drawn from the better educated, had a fair range of basic skills and shorter periods of long-term unemployment. Few of the more disadvantaged, the under-educated, and minority group members were found to be trainable.

Many factors swelled the numbers of the disadvantaged. The average middle class child is brought up in a home in which books are familiar objects, in which learning is respected and parents are ambitious for the success of their children, in which space and quiet are available for reading and homework. On the other hand, the average child in a slum rarely sees a book in his home. Parents with a minimum of education more often than not have no educational ambitions for their children, whom they want to become wage earners as early as possible. In an over-crowded home, with several adults and children living together, there is neither space nor quiet for homework, and children who ought to go to bed early end the day late when their elders retire. Day after day, they go to school fatigued, without having prepared their lessons, and with little energy left to pay attention in class. Such conditions naturally breed illiterate, inarticulate, backward teenagers, who become resentful and anti-social when they see the affluence enjoyed outside their slums.

In 1963-64, the MDTA began to concentrate on youth unemployment. In 1963, one out of seven white teenagers and one out of fourteen non-whites were unemployed. It was born in on the MDTA that the acquisition of a technical skill was only one requirement in fitting new workers for job opportunities, and that the state educational system had failed to prepare many youths in the skills and attitudes necessary to earn a living. The MDTA discovered that about 40 per cent of the 16-20 age group in 1963 were "drop-outs", i.e., had failed to complete their school careers, and lacked the elementary language

age skills increasingly demanded. The MDTA therefore liberalised standards of admission to their courses, modified their content, lengthened the training period and increased weekly allowances. The MDTA concentrated on improving literacy, inculcating ideas about factory and office discipline and team work, and the social attitudes needed to hold down a job.

By 1965-66, experience had disclosed that those who lived in ghettos, and were either without work or under-employed for most of their working lives, needed special attention. By now, the USA had passed from unemployment to acute labour shortage, yet even so most ghetto dwellers had difficulty in finding jobs. The MDTA then developed work-preparation projects for the hard core of the unemployed.

The original aim had been to train people for occupations in which there were reasonable prospects for jobs. Job-vacancy techniques were crude. Many workers trained for an occupation found that no job openings existed in it. The MDTA therefore began to emphasise "rehabilitation". Their difficulty was to develop the capacities of some of the hard-core unemployed to meet present standards required by most firms.

One solution was to create or restructure jobs to meet the capacities of disadvantaged workers. Such "job creation", which has necessarily been virtually confined to public employment, has meant restructuring professional jobs so that the under-educated or unskilled can take over certain activities, e.g., in elementary school teaching, the teachers' duties of monitoring children in the playground or guiding them in group activities can be given to someone with relatively little skill.

Re-designing Jobs

Another solution is "job development". The Agency strives to find job opportunities hitherto hidden, either because they are not usually advertised or employment agencies are not used to recruit for them. The MDTA also creates jobs by encouraging employers with labour shortages to re-design their jobs into simplified tasks. Finally, the MDTA may persuade employers to accept a sub-standard worker on condition that the MDTA continues to support him by retraining, counselling and medical aids to stabilise his personality and upgrade his capacities.

In 1966, the Office of Economic Opportunity and the Department of Labour developed the concentrated Employment Programme to mobilise all possible resources—health, recreation, transport, child care, basic education, etc.—to provide job-orientated rehabilitation for distressed areas in 19 inner-city slums. In 1966-67, five Federal agencies agreed on the Comprehensive Manpower Programme Systems to attack the employment problems of ghettos and inner-city slums. Their Human Resource Development Programme, applied in nine major cities, includes the following aims: To create supporting services which recognise impediments to employment beyond the acquisition of manipulative skills, i.e., health, emotional disturbances, age, lack of basic education, transport difficulties, etc.; to promote basic education, pre-vocational and occupational training-on-the-job; to persuade employers experiencing labour shortages to expand their enterprises by re-arranging work processes where the Agencies can supply trained workers.

Although the MDTA finances both institutional and on-the-job training, most training has hitherto been institutional. In 1963, the MDTA had 33,000 institutional trainees. By June 30, 1967, their number had risen to half a million. Fewer were enrolled in on-the-job programmes: 3,000 in 1963 had risen to 100,000 by 1966. The OJT programmes lag because (whereas institutional training uses existing state educational services) arrangements special to each firm that undertakes it are needed for OJT, and because the OJT programmes are more concerned

to upgrade under-employed workers; two-thirds of the OJT trainees were being prepared for semi-skilled or skilled jobs, compared with less than half of those in institutions.

II CALL TO PRIVATE ENTERPRISE

The USA is now making gigantic efforts to enlist the participation of private industry as an integral partner in a national training programme. The private sector generates 90 per cent of jobs in US industry. In the early 1960's the Federal policy was concerned with relatively small numbers of technologically displaced workers—today it has turned to the millions of hard core unemployed. The magnitude of the problem is now seen to be beyond the training resources of the Federal and State governments, so that the authorities are turning more and more to the private sector for on-the-job training. Among the advantages are that on-the-job training (1) costs less than one-third of institutional training since the employer is using his own equipment and techniques, (2) is tantamount to employment and involves no post-training placement effort, (3) gives the trainee experience of real working conditions rather than of the artificial conditions of a class room.

Four approaches are used to interest employers in public retraining programmes. The first is to arrange the OJT programmes in private firms with some subsidy to wages and training costs. The second is to couple institutional with the OJT programmes where the trainee works on a job, receives a regular wage, and at the same time supporting services from the Government Agency (training, counselling) to stabilise his adjustment. Thirdly, business leaders, particularly personnel officers, are being more and more invited to advise Agency officials in preparing operational schemes. Finally, Government Agencies are increasingly contracting with firms on a cost basis to use the company's training expertise for the benefit of disadvantaged groups. This resembles but is not the same as on-the-job training. The company accepts the contract as a training institution and not as an employer receiving a subsidy for training workers. Thus Agencies have been negotiating with the Chrysler Corporation to sign a contract to train 1,500 hitherto unemployable workers. The Corporation programme will include job counselling, institutional and on-the-job training, literacy training, business methods and work discipline.

Profit Basis

A number of the largest firms in the USA have, as a means of diversification of company operations, undertaken training programmes on a profit basis. The Philco Corporation, International Telephone and Telegraph, International Business Machines, and Xerox are but a few of the growing number of companies which have set up vocational-educational divisions as business propositions. The programmes of eighteen Job Corps Centres are under the direct administration of large companies. They seek to inculcate motivation (i.e., the desire to work, the ambition to get on and readiness to co-operate with others), work discipline and skills in the residents of these centres—young people of low education and skill, chronic emotional problems, and low "motivation". The Agencies are delighted with this new development in co-operation between government and business and look forward to widening it as fast as possible.

The emergence of this co-operation between government and business is going a long way to meet some of the criticisms of the original MDTA and ARA methods. It took some time for the pioneers to realise that they ought to be asking themselves: Were the trainees being trained for jobs in the (1) local, (2) regional, or (3) national labour market? What was the aim of training—a job or a career? The early MDTA training was aimed mostly at the local labour market. In the USA, where geographical mobility is almost a way of life, training for

a local market meant training for the immediate present but not for the long-run. Jobs that still exist in rural communities or small towns may not exist in large towns and cities. Secondly, the original programmes concentrated on particular jobs rather than on clusters of skills. This made the trainees' future depend on the permanence of a particular occupational speciality, which might become obsolete, e.g., any being trained today as key-punch operators are in a dead end because key-punching is yielding to tape-punching, which requires a different set of skills. Throughout the industrialised nations, the era of the specialist plumber, carpenter, electrician, or motor mechanic is passing. The future lies with workers trained in general mechanical principles to handle a variety of tools.

Doubtful Attitude

While the number of large US companies ready to co-operate in training schemes is gratifying, the attitudes of many businesses and trade unions often tend to be doubtful. Business and union leaders who have been members of local advisory boards are usually loud in applause of training as a matter of policy. Business critics often urge, however, that not enough has yet been done to give trainees realistic expectations about job opportunities, the work discipline demanded, or the basic verbal skills and standards of reading needed for promotion up the ladder of jobs. Most trainees are well equipped to take their first job but not for a career with the company. Secondly, equipment and training methods used in Agencies lag seriously behind those used in company training, so that allegedly skilled workers in fact need more training skill. Finally, many of the trainees, especially disadvantaged groups, require supporting services (counselling, literacy training) to stabilise their capacities and personalities.

Trade union leaders applaud the training ideal but are often strongly critical of on-the-job schemes, which they fear as threatening the skill and wage privileges of union members by increasing the supply of skilled workers. They especially resist public training in skilled occupations, claiming that skilled workers are in sufficient supply. Some unions have co-operated with the MDTA officials to develop upgrading schemes for union

members, using the MDTA funds (e.g. the Electrical Workers) but they are the exception.

One of the most serious impediments to expanding the USA's national training effort is that programmes are subject to annual reviews and budget provisions by Congress. Inevitably, changing priorities—political or other—may curtail or eliminate some programmes. Unfavourable publicity may jeopardise a programme, e.g., disclosures in the press that Job Corps trainees had taken part in riots in certain areas, coupled with the public controversy about the costs of training (\$9,000 per annum per head) led Congress to reduce funds for that programme. Programmes must also compete with each other for limited funds and consequently the expansion of one is often at the expense of another. All this makes it difficult to ensure orderly progress in public training and to mobilise resources for it. Even when teachers are available, many are reluctant to commit themselves to a programme the future of which is uncertain. For the same reason it is often difficult to get local community leaders to make long-term commitments for training resources. Obviously one of the USA's most urgent needs is to find means to ensure that funds for public training are voted on a long-term basis.

It is easy to criticise the USA for having allowed so many millions to have become disadvantaged, just as it is easy for us, with the benefit of present knowledge, to criticise those responsible for the insanitary conditions that accompanied the rise of the Industrial Revolution. But throughout history, challenges have inevitably preceded solutions. What is encouraging is the magnitude and energy of the pioneering effort that the USA is putting forth to overcome the repercussions of the contemporary technological revolution.

Sources: For facts and figures I have drawn on "Technological Change and Job Change", a paper read by Dr William Haber, of the University of Michigan, before a conference recently held by the (British) Foundation on Automation and Employment (17 Southampton Place, London, W.C.1.). The collected 14 conference papers, entitled "Automation, Full Employment, and A Balanced Economy" are available from the Foundation, price 16/6d. post free.

Two Years of Yugoslav Economic Reforms

BOZIDAR RADENKOVIC

LATE IN July 1965 large-scale economic reforms were initiated in Yugoslavia following the approval of the Federal Assembly. The Federal Office of Statistics conducted a survey recently and has published some facts on the results of economic reforms in the first two years. Taken as a whole, the conclusions indicate that employment has decreased, a certain slow-down has been noticed in the rate of growth, exchange of goods and services with other countries has increased, while prices have risen, capital investments have slackened, personal earnings have increased both in monetary and in real terms, and personal consumption expenditures have also improved.

In the first year of the reforms (from August 1, 1965 to July 31, 1966), employment in the socialized sector of the economy experienced a decrease of three per cent. In the second year of the reforms (from August 1966 to July 1967) the decrease was one per cent only. In absolute figures this meant loss of jobs to 140,000 persons. Employment in different branches of the economy has varied: in forestry it recorded a drop of 19 per cent in the first two years of the reforms followed by agriculture 13 per cent, building construction 12 per cent and handicrafts 11 per cent, but it rose in commercial organizations and in the catering industry by three per cent each. Even though employment in non-economic activities as a whole remained unchanged compared with the pre-reform period, in the cultural and welfare activities including education, it rose by

seven per cent, while in government administration organs it fell by 15 per cent.

Unlike the changes in the socialized sector of the economy, the number of employees in the private sector (agriculture excluded) increased by 17 per cent towards the end of the second year of the reforms. The highest increase in private employment took place in handicrafts and catering.

The statistical returns of the Federal Office also reveal that the number of skilled job seekers went up from 30,000 to 58,000.

The manufacturing industries first displayed trends of moderate growth, later signs of stagnation, while in recent months there have been signs of declining production. Thus between August 1965 and July 1966, industrial output rose by six per cent, and in the following six months by no more than two per cent. This, however, is not true for every branch of industry. For, a rise in production was registered in the petroleum, chemical, paper, electric power, rubber and food industries.

Inventories of finished products held by the industrial producers rose by some 50 per cent toward the end of the second year of the reforms. The largest single increase in stocks took place in the case of consumer goods (65 per cent), followed by raw materials and semi-finished goods (56 per cent), and capi-

tal goods (31 per cent). In all these categories the warehoused goods were growing at a faster rate in the second than in the first year of the reforms. At the same time there was a further change in the stocks of raw materials. In the first year, they grew by 24 per cent at the level of enterprises which consume them; stocks of imported raw materials increased by nine per cent while stocks of fuels went up by 24 per cent. In the second year, the inventories held by consumer enterprises did not rise as a whole, while stocks of imported raw materials rose by five per cent, and those of fuels diminished by one per cent.

Although all the figures have not been sorted out as yet, it is estimated that agricultural production will be five per cent less than in 1966, but 11 per cent higher than in 1965. However, knowing that the last year was one of exceptionally good crops, it may be said that agriculture has achieved very favourable results in the first two years of the economic reforms. Last year the production of maize set an all-time high, while this year there was a record wheat harvest mostly because of improved yields per hectare.

Production in the livestock raising industry also expanded by three per cent in 1966, while an increase of four per cent is expected this year in comparison with 1966. Production in fruit growing and viticulture was more or less at the level of the bumper years.

Since the second year of the reforms the rate of rise in foreign trade turnover has somewhat slowed down—from a rise of 14 per cent in 1966 to an increase of 11.8 per cent in 1967. Compared with 1964, in the first year of the reforms the increases in exports and imports were 19.3 and 10.4 per cent, respectively, while the rates of rise were 6.8 and 1.9 per cent respectively in the second year of the reforms.

The increase in exports by 6.8 per cent in the second year compared with the first year of the reforms resulted from increased sales of industrial goods by 4.2 per cent and from 18.1 per cent higher deliveries of agricultural and forestry pro-

ducts. However, in both cases there was nearly the same increase in terms of value—about half a billion of new dinars. The improved exports as a whole resulted principally from increased marketing achieved by the textile, leather and food industries. Deliveries of the shipbuilding, metal-working and timber industries have slackened. Of the agricultural products, the highest rise was recorded by maize, since over 800,000 tons of this crop was exported between August 1966 and July 1967, which was nine times as much as in the same period of 1965-1966.

Higher Imports

In imports, the highest increase was registered by materials for re-manufacture—26 per cent more in the second than in the first year of the reforms. More capital and consumer goods were also imported.

In value terms, investments in economic activities rose by 16 per cent in 1966-67 in relation to 1964-65, while those in non-economic activities dropped by eight per cent. The sharpest rise in investments was in commerce and catering (63 per cent), followed by manufacturing industries (28 per cent) and handicrafts (15 per cent). Comparing the variations in capital investments with those in the gross national product in 1966 as against 1964 it may be seen that the national product nominally rose 60.5 per cent, while gross investments in the fixed capital funds of the economy's socialized sector went up by 12 per cent. On the other hand, when comparisons are made between the increase in investments in the fixed capital funds in 1966-67 in relation to 1965-66 and the increases in personal earnings and employment, it is seen that investments rose by eight per cent, personal earnings by 77 per cent, while employment declined by four per cent. Obviously, what is involved here are the significant changes in the use of the gross national product, because the monetary increase in investments considerably lags behind the increase in the gross national product in value terms and the monetary rise in personal earnings as well.

Indo-Rumanian Co-operation

A Correspondent

INDIA'S ECONOMIC relations with east European countries, forged as they are on mutual understanding and goodwill, despite their recent origin, have by now been considerably strengthened. This is indicated as much by the rapid increase over the years in India's bilateral trade with these countries as by the extent of economic aid they have given for Indian development projects. The object of Indian Prime Minister's recent visit to Poland, Yugoslavia, Bulgaria and Rumania was mainly to explore possibilities of strengthening these ties still further. Mrs Indira Gandhi's economic discussions with the leaders of the four east European countries she visited were by and large successful. In all the four joint communiques issued after the completion of her visit to each of these countries special mention was made of the desirability of developing bilateral trade relations on an expanding basis; India's need of aid for its economic development was also fully appreciated.

Trade Expansion

In Rumania, the last of the four east European countries on the Prime Minister's itinerary, the atmosphere was no different. Appropriately enough, Mrs Indira Gandhi and Mr Gheorghe Maurer, the Rumanian Prime Minister, agreed to initiate action to expand trade and economic relations between the two countries. The joint communique issued at the end of her visit to Rumania spoke of exploring possibilities for extending and diversifying bilateral relations between the two countries "in all fields". It is a measure of the earnestness of Rumania that its Prime Minister indicated his government's willingness to extend maximum possible assistance to develop India's petrochemical industry. Indications were also available

immediately that Rumania was prepared to exchange its urea for Indian iron ore and that it would re-arrange terms of credit so that repayment becomes easy.

All this is in tune with the "fine tradition that the Rumanian-Indian friendship has already acquired". (The quotes are from the Rumanian Prime Minister's welcome address to Mrs Gandhi). The most recent of the manifestations of this tradition is to be found in the agreement signed only last month between the two countries under which Rumania will provide plant and equipment and technical service for lubricating oil plant at the giant Rs 46-crore Haldia oil refinery complex; the Rumanian collaboration will help in the manufacture of fuel oil, bitumen and lubricating oils at the refinery. This is not for the first time that Rumania will be assisting in the development of Indian oil industry. The oil refinery at Gauhati, with an annual capacity of 750,000 tons, was designed, installed and put into operation by Rumanian technicians. The sulphur dioxide solvent installation in the framework of the Barauni oil refinery was also supplied by Rumania. The fact that Rumanian oil drilling installations are at work at a number of places in India is not unknown.

Though its economic assistance to India has so far been mainly confined to the oil industry, Rumania, by virtue of the high level of industrial development achieved by it, is in a position to extend assistance in various other areas. This has, indeed, been already demonstrated in the field of power. The Singareni thermal power station was designed, mounted and put into operation by Rumanian technicians. India can look to Rumania for the supply of turbines of various types, electric

generators, equipment for thermal and hydro-electric power stations, transformers, electric motors, various types of boilers, etc. Similarly, Rumania can supply tractors and other agricultural equipment to assist in India's endeavour of attaining agricultural self-sufficiency.

By and large Indo-Rumanian economic relations are bilateral and are strictly dependent on the volume of trade exchanges between the two countries. While from the very beginning, trade between the two countries has been developing quite fast, it has taken rapid strides with the signing of the long-term five-year agreement in 1959. Commercial exchanges between India and Rumania which had gone up by 73 per cent between 1959 and 1965, rose in 1966 by 10 per cent over the level achieved in the preceding year and are expected to go up by another 10 per cent by the end of 1967. In 1965-66, Indo-Rumanian trade was of the order of Rs 6.7 crores. India's exports to Rumania mainly consist of iron ore, textiles, jute goods, coffee, spices (pepper), tanning and semi-tanning materials, etc. In return, Rumania supplies India petroleum products, spares for oil rigs, fertilizers, pharmaceutical intermediates, sodium products, various other chemical products, etc.

As already stated, both the countries are keen on expanding and diversifying the trade relations between them. While Rumania is desirous of selling to India complete plants for the manufacture of machinery, tractors and other agricultural implements, machine tools and power equipment, India would like to ship to that country some of its newer industrial products over and above its traditional exports. Thus, the State Trading Corporation of India, having been successful in finding a market in Rumania for Indian woollen and cotton textiles, chemicals and machine tools, has already undertaken exploratory work for offering to that country batteries, builders' hardware, spectacle frames and electrical goods. There is a large number of other products which the STC is now selling in

the other east European countries and would like to place on the Rumanian market; among them are railway wagons, air-conditioners and refrigerators, thermos flasks, footwear, razor blades, paint brushes, brass and copper ware, electric irons padlocks, etc.

There is no reason why Rumania, with its growing emphasis on providing to its people basic amenities in an increasing measure, should not be in a position to import what India can offer on a continuously expanding basis. On the other hand, India, until at least the time it attains internal viability in regard to its industrial development, will have to look to such countries as Rumania which can offer capital and other goods. The process of economic development is virtually never-ending, and national economies, whatever their stage of advancement, continue to grow; nor will the principle of comparative advantages of production cease to operate. Commerce amongst nations, therefore, must continue; it grows fast if their economic relations are based on mutual interest and understanding. So will it be in the case of India and Rumania whose friendship has already acquired a "long and fine tradition".

INDIA'S TRADE WITH RUMANIA

Year	(Rs Lakhs)	
	Imports	Exports
1957-58	63	56
1958-59	54	44
1959-60	164	237
1960-61	495	139
1961-62	383	261
1962-63	261	341
1963-64	185	275
1964-65	177	318
1965-66	215	451

Implications of Slowdown

E. B. BROOK

VIENNA :

IT IS something of a paradox that while west Europe's business pattern is, in general, moving over rapidly to the broad-based internationally financed systems its growth is slowing down. This is probably a temporary condition, though few would care to guess how long it will really last and, to some extent, is more apparent than real.

This partial deceptiveness in appearance arises from the fact that the slow-down emerges from comparison with the post-war era of supergrowth in the 'fifties when, led by West Germany, European business rebuilt itself with the help of Marshall Aid (its massive contribution should never be forgotten but, even now, tends to be overlooked), partly re-equipped and prospered exceedingly in old and new markets. This golden phase was made the easier because, for the most part, southern Europe, far less well off, was only too glad to export labour, to turn an often blind eye to illegal emigration and because this flow of labour was augmented, usually at a higher level of competence, by massive population movement from the nearer parts of east Europe, especially from East Germany.

That golden age began to disappear three years ago; by now it has vanished. French industry and commerce are receiving reluctant state help, West Germany has had (for Germans) the alarming experience of spending more than it earns and is taking drastic measures (at some hurt to their neighbours) to put matters right. Denmark and Sweden have higher taxes to help their economies along. Only the "rich three"—Holland, Belgium and Luxemburg—remain relatively affluent, with the aid of immense foreign, mostly transatlantic, investment.

As to labour, parallel to West Germany's panicky cutting down the numbers of hired foreign workers, southern Europe

is beginning to look after itself rather more successfully and is keeping more labour at home. Portugal and Spain, particularly, are developing new industries, partly with the aid of the USA, Swedish and other foreign capital; Italy alternates between depression and boom, with accent on prosperity and Greece is likely to develop more steadily. The result in west Europe is already fewer foreign workers demanding better conditions and higher wages than they have enjoyed before.

The rate of growth of the labour force in Britain, France, W. Germany and Italy is expected to drop from 0.7 per cent a year in 1960-65 to 0.4 per cent annually between 1965 and 1970.

Fall in Productivity

The fact of west Europe's gradual slowing down is emphasized by developments in the USA where, for the first time since 1950, the economy has expanded faster than that of western Europe. Anti-inflationary policies in Britain and West Germany explain it partly, but the principal reasons are the decreasing availability of labour and a fall in Europe's productivity.

This fall in productivity has worried the Germans, but they have the residual strength to set it right, and are doing so rather selfishly. Some smaller states, with far narrower resources, lack this resilience and large reserve of economic strength. West Germany, Britain and France can, if necessary, call on large official financial reserves and reasonably expect large scale investment by their industrial and business communities when the time is suitable or when there is a genuine necessity. But several small states, such as Austria and Denmark, are not in this happy position and, while the latter has expressed its resentment recently of a 6 per cent increase in

taxation, Austria faces not only an inevitable rise in taxes but the necessity for a major overhaul of its economy.

India knows how vital, immediately after independence, was the question of the viability of states; this problem is now moving over to western Europe where smaller states of even the most historic antiquity are beginning, unwillingly and possibly unknowingly, to face the problem whether they, with narrow economies, insufficient industrial population and not enough resources to modernize industry, are now viable in a world of mammoth trading corporations and massive industrial financing.

The signs are already there—not that the states will disappear or necessarily be merged with a stronger neighbour, but that the financing and direction of their industries must be given over into the hands of wealthier, more modern, far more technically developed strangers.

This is the basis of De Gaulle's fear and of his policies; if France, a major European state with a partly outdated economic method, feels this anxiety how much more do some of the smaller states of central Europe most of whom, in their present form, are the products of the 1918 peace treaties, partly modified by those of the mid-'forties? The growth of vast industrial modern business is fast making the break-up of the pre-1918 Austro-Hungarian economic complex appear mistaken.

Whether this break-up was an economic error or not, modern Austria, heavily dependent on tourism for prosperity, a member of the EFTA because its enforced official neutrality, guaranteed by the 1955 State Treaty by which Austria re-emerged in the form of the Second Republic, precludes it from membership of the Common Market, nevertheless has over 60 per cent of its trade with the Market. Added now to its problem of economic insufficiency is the terrible prospect of having to pay full Market tolls on more than 60 per cent of its exports when the Market's internal tariffs disappear next year. An effort to leave the EFTA to associate with the Market has been dallied with in Brussels for over two years and faces now Italian obstruction because of Rome's anger at Tirolean terrorism.

Special Perplexities

The Austrian situation has, it is true, its special perplexities, but basically its problem is that of some more small countries—that they have not enough resources for trading successfully in the modern commercial world and not enough or sufficiently well-off people to take the strain in taxation that this shortcoming involves.

The smaller countries of east Europe, those of the Balkans, are in much the same fix. Their scale of expenditure for the income they derive from it would, under west European systems, quickly drive them to bankruptcy. At least one has, in fact, been bankrupt for years. The heavy dependency on tourism in east Europe is itself evidence of how much these countries need foreign currency.

But, in the matter of viability, this factor is overlaid by the co-operative nature of the communist system which passes off as trading between the USSR and its partners what is, in fact, economic forced delivery. Not one of these states—if dependent for raw materials on the USSR—are free agents in fixing their selling prices. The USSR, for example, buys up the Hungarian textile output at its own price because the cotton is supplied by the Soviet Union at a price decided by the supplier. But were it not for the USSR few of the socialist European states would remain economically viable for long.

It is this fact that presents the greatest obstacle to developing commerce between west Europe and the USA on one side and socialist east Europe on the other. The latter is so supported by a system of dogmatic economic props—inconvertible currencies, rigid pricing policies, the balance of payments—that a genuine and workable basis of trading is impossible to discover. On the western side, especially in the USA, there are equally commercially artificial (even if politically sound) restrictions that, for NATO nations, make many business proposals impossible.

Even if the west proves ultimately to be willing to admit more east European states than Poland and Yugoslavia to the GATT, to extend more generously most-favoured-nation treatment there is no visible prospect of the east making any concession on their tariffs and embargoes.

BRITAIN AND THE COMMON MARKET

Despite all the arguments in Britain about the wisdom or otherwise of seeking membership of the Common Market two facts concerning the Market itself are very clear on the continent—the Market is in no hurry to have Britain or anyone else joining it and the Market is itself stagnant.

The past five years or so have been a period when, it begins to appear, exaggerated importance has been given to a number of subjects or objectives. Principal among the latter has been the race between the EFTA and the Common Market to abolish tariffs within their organisations. Principal among the former—rather less important—has been Europe's irritable anxiety about "brain drains" and "technological gaps", in both cases with north America as the villain of the piece stealing away Europe's most valuable scientists and technicians and so rapidly developing its technological ability as to leave Europe looking like a poor relation.

At first sight, there may appear to be very little relationship between these subjects but, in fact, the relationship is fairly close. For the Common Market has been so "blown up", in the photographic sense, by almost continual negotiations and by press reporting that it has come to be internally to Europe what the USA is externally, the enviously regarded success story.

But facts do not bear out these impressions. The Market, solid and aloof as it may appear from the outside, has plenty of weakening internal problems; concentration in the Kennedy Round and, internally, by the EFTA and the Market, on lowering tariffs has produced complications that might have been foreseen had the negotiators not been so closely intent on their goal. As to the "technological gaps" between the USA and Europe, they are largely irrelevant.

How united is, in fact, the Market? On the question of Britain's and others' entry it is well known that France stands more or less alone in stonewalling and opposing it. Others, like Holland and Belgium, are almost entirely in favour of the British application. The others approve cautiously and only in part. The others include powerful West Germany and Italy. France and its markets are moreover, so important to West Germany and, especially to Belgium and Luxemburg, that a strong French dissent brings them into line, despite themselves.

Other Differences

There are many other causes of difference within the Common Market. France has never agreed to any diminution in political sovereignty in favour of the Market's council. In fact, the six members agree only in so far as they wish or find it profitable to agree. The Brussels Commission is getting into the easy habit of advising each member country to do no more than it is prepared to accept—in other words, to advise it to do what it would have done anyhow. It is a pleasant and easy way of preserving the appearance of unity. But the appearance covers a growing number of dissimilarities and divergences.

Requests by the commission to member states to have regard to the effect of their policies on their partners are ignored; to make them now is mere wishful thinking. Occasionally a middle of the road compromise that satisfies no one but keeps up appearances is achieved, but the nature of the Market has changed as its members have grown stronger in the last ten years. This change in character is more noticeable as US commercial influence grows within them with a global trading outlook and as east Europe opens up with widely attractive markets. There is now almost no focal point to the policies of member states of the Market.

NEPAL BANK LIMITED

Estd.—1994 B.S. Central Office : Kathmandu, Nepal Estd.—1937 A.D.

AUTHORISED CAPITAL	...	Nep. Rs. 1,00,00,000
ISSUED AND PAID-UP CAPITAL	...	Rs. 37,46,600
RESERVE FUNDS	...	Rs. 60,50,000

NOTE :—One Nepalee Rupee is the equivalent of 11½ D (U.K.), 13 C (U.S.) and 98½ P (India)

A network of 42 Branches throughout the country. Banking and Exchange Business of every description transacted with the principal commercial centres of the world.

Chairman :—SHRI SHYAM KRISHANA BHATTARAI.

General Manager :—SHRI ANANDA BHAKTA RAJBHANDARY.

Telegrams :—"NEPALUXMP"

Telephones :—11185 11337

HIGH PRESSURE BOILER PLANT OF BHARAT HEAVY ELECTRICALS LIMITED

Can Offer

HIGH PRESSURE BOILERS FOR
Thermal Power Stations
Medium and High Pressure Valves

FOR OIL, STEAM, WATER AND ALL NON AGGRESSIVE FLUIDS
PRESSURE VESSELS HEAT EXCHANGERS
AND INDUSTRIAL BOILERS

Other Power Station Equipments like Mechanical Dust Collectors, Electrostatic Precipitators, Heavy Duty Fans like Axial And Radial Fans, Soot Blowers for various Types of Boilers, Ball Mills and Hammer Mills, Desuperheaters etc.

PLEASE ADDRESS ALL YOUR ENQUIRIES TO :—

SALES MANAGER,

BHARAT HEAVY ELECTRICALS LIMITED

HIGH PRESSURE BOILER PLANT,
TIRUCHIRAPALLI—14,
Madras State.

Trade Winds

INDUSTRIAL COLLABORATION

INDUSTRIAL EXPERTS are now examining the possibility of developing closer economic collaboration with countries which the Minister for Industrial Development and Company Affairs, Mr Fakhruddin Ali Ahmed, visited recently. He is of the opinion that there is good scope for India co-operating, particularly with the USSR, Czechoslovakia, Bulgaria, Yugoslavia and the UAR. In the UAR, there is capacity for production of phosphate fertilizers and other items. India can supply to the UAR textile machinery, know-how and facilities for manufacture of electrical machinery, diesel engines and some other goods in return for using their capacity. Similarly certain lines of manufacture utilising available industrial capacity in India and other countries can be developed to mutual benefit. Mr Fakhruddin Ali Ahmed is also keen on establishing co-operation with a number of countries in the west Asian region. He is of the view that industrial know-how and products can be usefully exchanged with these countries.

FAMILY PLANNING

The Central Family Planning Council, which met in Delhi recently, resolved that early steps be taken to raise the minimum age of marriage to 21 years in the case of girls and 25 years in the case of boys. The council also resolved that a large number of practitioners of indigenous medicine and homoeopathy should be involved in the motivational aspect of family planning. Steps are also to be taken to assess the efficacy and safety of indigenous and homoeopathy medicines for family planning. Dr S. Chandrasekhar, union Minister for Health and Family Planning, in his address to the International Homoeopathic Conference concluded in New Delhi last week, advised Indian homoeopaths to work in this direction. The council has further stressed that while 'cafeteria' approach may continue and free and highly subsidized services may be rendered from family planning centres in respect of all family planning methods and devices, sterilization should be emphasized for couples having more than two or three children for limiting the size of the family. The IUCD and other contraceptives are advised for spacing by couples having one or two children.

AGRICULTURAL CREDIT

Long-term agricultural loans amounting to Rs 83.50 crores will be available to farmers through co-operatives during 1967-68. This amount is in addition to short-term credit worth Rs 500 crores available to farmers during the current financial year through the co-operative sector. Long-term agricultural credit is provided through land mortgage banks for production purposes like land reclamation, private minor irrigation works, pump-sets etc. The loans are repayable over periods of seven to 15 years.

ALUMINIUM PROSPECTS

Addressing the first customers' conference of Hindustan Aluminium Corporation at Renukoot last month, the well-known industrialist, Mr G. D. Birla, who is chairman of the company, disclosed that Hindustan Aluminium was making brisk preparations to expand its capacity to produce primary aluminium from 60,000 tonnes to 120,000 tonnes. The company had already got a licence for doubling its capacity and the foreign exchange component of the expansion programme, Mr Birla said, was being arranged from international financial institutions. When Hindustan Aluminium completes its expansion programme to 120,000 tonnes, it would save for the country nearly Rs 25 to 30 crores worth of foreign exchange annually in addition to nearly Rs 20 crores it is saving at present. The company's expansion to 60,000 tonnes primary capacity from the initial licensed capacity of 40,000 tonnes has already been commissioned. During the first seven months of the current

year the company produced nearly 24,370 tonnes of aluminium—slightly over 45 per cent of the country's total output of nearly 53,950 tonnes. Under favourable circumstances, the company, Mr Birla observed, could produce even at present more than the rated capacity of 60,000 tonnes.

The special adviser to Hindustan Aluminium, Mr T. C. Saboo, who also addressed the conference, expressed the view that if the substitution of copper, zinc and other non-ferrous metals by aluminium in electrical industries and other uses were to be taken into account, the demand for aluminium by 1970-71 should exceed the estimates of the Planning Commission's working group, which put the requirement of the aluminium in that year at 240,000 tonnes. Mr Saboo estimated that requirements in 1970-71 actually might be around 275,000 tonnes.

Mr Birla visualised a sharp growth in the consumption and production of aluminium in this industry. Our per capita consumption of aluminium, he observed, was 0.20 kgs, as against 14.1 kgs. in the United States, 10.5 kgs in Switzerland, 5.4 kgs in Britain and 3.1 kgs in Japan. There was a vast scope for extending the use of aluminium to such fields as transportation, building and construction, canning and packaging, said Mr Birla. He expressed the view that our bauxite resources were sufficient to support an aluminium industry with an annual capacity of about five lakh tonnes for over 100 years.

DRUGS AND PHARMACEUTICALS

The antibiotics and synthetic drugs units of the Indian Drugs and Pharmaceuticals Limited—a public sector undertaking—are expected to start production early next year. The supplies in the market are expected by June. The antibiotics plant at Rishikesh, costing Rs 24 crores, will be producing annually: penicillin potassium G—(i) Sodium salt of penicillin 30 tonnes, and (ii) Procaine salt of penicillin 45 tonnes; streptomycin sulphate—70 tonnes; dihydrostreptomycin sulphate 15 tonnes; tetracycline 25 tonnes; chlortetracycline 70 tonnes; oxytetracycline 25 tonnes; and hystatin 10 tonnes. The synthetic drugs plant at Hyderabad, which is estimated to cost Rs 21-22 crores, will be producing a number of drugs and intermediates belonging to the following eight principal blocks: sulpha drugs, vitamin B-1, vitamin B-2 and folic acid, anti-TB drugs and antipyretics, compounds based on metallic sodium, phosgenation and chlorination, ammonia water and sodium bisulphite, and intermediates. The quantities of the various salable products are as follows: sodium sulphacetamide—50 tonnes; sulphamillamide—50 tonnes; sulphaguanidine—130 tonnes; sulphadimidine—280 tonnes; vitamin B-1—30 tonnes; vitamin B-2—five tonnes; nicotinamide—20 tonnes; folic acid—one tonne; phenacetin—100 tonnes; amidopyrine—40 tonnes; metamizole—10 tonnes; diethylcarbamazine citrate—30 tonnes; piperazine adipate—50 tonnes; INH—20 tonnes; and phenobarbitone—10 tonnes. The plants were originally designed to produce these drugs and antibiotics according to the Russian pharmacopoeia, but with the finalisation of the Indian pharmacopoeia, the specifications of the products are being changed to the latter.

The surgical instruments plant of this undertaking situated at Madras, which has already gone into production, has an annual capacity to manufacture 2.5 million pieces covering a wide range of instruments in the fields of general, gynaecological, ophthalmic ENT, dental and neuro-surgery. Recently in view of the slack off-take of the products of this plant, modifications have been effected in the product pattern of this unit. The product pattern now also includes instruments for family planning and vasectomy. The costs of production at all the three plants, except in the case of a few products, are expected to be much higher than in other countries, even if the raw materials are supplied to these plants at the prices at which the foreign manufacturers get them. Efforts to bring down the costs of production are being made. The foreign exchange con-

tent of the antibiotics and synthetic drugs is estimated around 60 per cent. This proportion may, however, go down when the Organic Chemicals, another public sector undertaking, starts producing basic raw materials within the country. The entire raw material requirements of the surgical instruments factory will have to be imported till alloy and stainless steel is produced in the country.

TATA JOISTS FOR IRAN

For the first time in India, Tata Steel is exporting INP joists to Iran against an order for 35,000 tonnes, worth two crores of rupees. Hitherto, Iran had been importing these joists exclusively from Europe, but Tata Steel has taken the initiative in developing these new sections for the Iranian market. Commercial and Industrial Exports Limited (CIEL), the government recognised export house of Tatas, has booked orders from Iran also for deformed bars made by Tata Steel. These deformed bars will be used in the Iranian government's construction projects in lieu of cold-twisted bars, which were previously being imported from Europe.

MICA WORKERS' ADVISORY BOARD

A central advisory board for the Mica Mines Labour Welfare Fund has been constituted to review and co-ordinate the activities of the regional organisations of the fund. The tripartite board, headed by a joint secretary in the union Ministry of Labour, Employment and Rehabilitation has, besides the chairman, three representatives each of the government, organisations of employers and workers.

FOOD IMPORTS

India is seeking to import another 1.3 million tonnes of foodgrains from the United States and other countries of the Aid India Consortium to meet the country's requirements till the end of this year, it is learnt. Imports under PL 480 and those under commercial arrangements so far this year amounted to nine million tonnes. Quantities of grain procured from the current kharif are expected to be available for meeting the needs of the public distribution system by the end of this year.

CANADIAN AID

Agreements providing \$29.5 million in development loans to India were signed in Ottawa on October 27. A \$19.5-million loan will buy three generators and ancillary equipment for the Idikki power project in Kerala, which will generate electric power for industrial development in Kerala, Madras, Andhra Pradesh and Mysore. Canada already has given \$5.5 million for equipment and engineering services and will be providing additional help in the construction costs of the \$125-million project. The second loan for \$10 million is to be used for the purchase of copper, zinc, asbestos, newsprint, sulphur, aluminium, lead, synthetic rubber and wood pulp in Canada.

HANDICRAFTS EXPORTS

The exports of handicrafts have increased by more than one hundred per cent in the first quarter of the current financial year over those in the corresponding period of the last financial year. The increase has been over Rs 6.41 crores (\$5.265 million). Handicrafts worth over Rs 12.57 crores were exported during April-June this year as against Rs 6.16 crores during the corresponding period last year. Exports of handicrafts during 1966-67 amounted to over Rs 40.41 crores as against about Rs 27.79 crores during 1965-66, marking an increase of over Rs 12.61 crores in a full year.

IMPORT OF INSTRUMENTS

Import of permissible items of design and drawing office equipment and instruments, erection and installation equipment, tools and accessories, actually required and not indigenously available, will be allowed purely on an ad hoc basis. The technical consultancy firms undertaking foreign opera-

tions and earning foreign exchange may apply in the prescribed form for ad hoc licences to the Headquarters Licensing Division of the office of the Chief Controller of Imports and Exports.

SYDNEY FAIR

The International Trade Fair at Sydney concluded on October 28. The Indian pavilion at the fair was a considerable draw. There were many business enquiries for a wide range of Indian products, particularly heavy machinery, textiles and handicrafts. A wide range of Indian products having an export potential to Australia, such as, machine tools, electrical equipment, diesel engines, shaping machines, sewing machines and ceiling fans, automobile components, chemicals and pharmaceuticals, mineral ores, such as, mica, plastic goods, imitation jewellery, textiles (cotton, silk, synthetic, handloom and jute), tobacco, cigarettes, foods and beverages, such as, tea, coffee, canned products, handicrafts, etc., were on display at the pavilion.

EXPO67 ENDS

The Expo67 exhibition at Montreal, which concluded on October 29, drew over 50 million visitors in a six-month run, a record for world fairs. The only disappointing aspect of the fair was the size of the deficit; this is expected to reach \$250 million—far above the \$47.5 million foreseen in 1963 when the Canadian government approved the project. The Indian pavilion at the exhibition, which had been adjudged among the first ten, was a great attraction.

RUBBER PRICES

In view of the steadily falling prices of natural rubber, the government of India has fixed the statutory minimum price for RMA Grade I rubber at Rs 415 per 100 kgs as announced in August last following the recommendations of the Tariff Commission. Appropriate price differential for other grades will however be allowed. The government has also decided to notify the statutory maximum prices for the various grades of rubber in the interests of the consumers of rubber-based products in common use such as tyres and tubes and shoes, as well as of our exports of rubber products. In conformity with this decision to accept Rs 415 per 100 kgs as the fair price of rubber of Grade I, the maximum prices for the various grades of rubber have been notified at Re. 1 per 100 kgs above the minimum price fixed for each grade.

PAINTS TO CZECHOSLOVAKIA

Asian Paints, an Indian firm of paint manufacturers, has entered the European market for the first time with the shipment to Czechoslovakia last month of its first consignment worth Rs 6.63 lakhs of apcolite synthetic enamel white. The total order is worth Rs 25.76 lakhs.

TEA PLANTATION IN JAMMU

The rehabilitation trials conducted recently in the experimental plots in the Jammu area have revealed immense potentialities for the growth of tea plantations there. This was disclosed at a meeting of the ad hoc committees for small tea growers held in Delhi last month. The Tea Board will be assisting the Jammu and Kashmir entrepreneurs with the necessary variety of seeds.

AIR LINK WITH INDONESIA

A bilateral air services agreement between India and Indonesia was signed in Djakarta recently. This is the first formal step towards establishing on a firm and permanent basis the operation of Garuda International Airways to India and Air-India to Indonesia.

JUTE FORWARD TRADING

The East India Jute and Hessian Exchange Limited, Calcutta, has been asked to suspend entering into forward contracts in jute goods for a further period of one week effective from October 27.

Company Affairs

HINDUSTAN ALUMINIUM

THE DIRECTORS of Hindustan Aluminium Corporation Limited have decided to issue right shares at par in the proportion of 17 new equity shares for every 50 equity shares held. The present paid-up capital of the company will be raised by Rs 2.03 crores by the proposed rights issue of 2,037,943 equity shares of Rs 10 each at par. The shares will be offered to these equity holders whose names stand registered in the books of the company as on November 25, 1967. For settlement of fractional rights of shareholders who hold shares which are not in multiples of 50 shares, coupons for one-third of a share each will be issued to the shareholders, which would entitle them to apply for and get allotted one new share for every three such coupons on surrender along with application money. The full amount of Rs 10 a share is payable on application. The last date for submitting the application is December 26, 1967. The transfer books of the company will remain closed from November 18 to November 25, 1967, both days inclusive.

Starting with a production of 20,000 tons of aluminium in 1962 the company's installed capacity has been trebled to 60,000 tons a year. It has its own alumina plant and besides making aluminium ingots, it has a most up-to-date fabrication shop manufacturing redraw rods, sheets, cords, angles and other such items. It has also set up a large thermal power plant with a capacity of 135 megawatts. The company has now got an industrial licence for doubling its existing capacity to 120,000 tons a year. The plant is situated at Renukoot, in east UP, 90 miles south of Mirzapur. Since its inception the foreign exchange savings to the country have risen from Rs 177.72 lakhs in 1962 to Rs 1587.54 lakhs in 1966.

DUNLOP INDIA

The directors of Dunlop India Limited have proposed an interim dividend of seven and a half per cent on the equity capital for 1967. This is payable on or after December 8 to those shareholders registered as on November 27. The total dividend paid for the previous year was 17.5 per cent.

GENERAL ELECTRODES

General Electrodes and Equipment Ltd, which proposes to manufacture mild steel and special electrodes at Thana, near Bombay, will offer for public subscription 10,315 equity shares of Rs 100 each. The subscription list will open on November 3 and will close on November 21 or earlier but not before November 13. The company, which has an authorised capital of Rs 50 lakhs, has already issued shares worth Rs 10 lakhs. It now proposes to issue in all 20,000 new equity shares of which 9,685 shares will be issued to its West German collaborators against the supply of plant and machinery and the balance will be offered for public subscription. The company has already acquired land and constructed its factory building. It has entered into a technical and financial collaboration agreement with Messrs Griesheim GMBH of West Germany.

CROMPTON GREAVES

The Crompton Greaves Ltd proposes to maintain its equity dividend of 15 per cent for the year ended June 30, 1967 on its larger capital resulting from the public issue of its shares during the year. The company had issued 75,000 equity shares of Rs 100 each at a premium of Rs 30 per share, and these partly paid shares will rank for dividend proportionate to the amount paid on capital account. The company has produced better results for the year in spite of a 74-day strike. Its gross profit has increased to Rs 259.16 lakhs from Rs 199.67 lakhs in line with the rise in sales to Rs 15.83 crores from Rs 12.58 crores. The directors have transferred the entire pre-tax profit of Rs 242.38 lakhs to general reserve against Rs 171.58 lakhs after providing for depreciation and development rebate reserve. The taxes, estimated at Rs 147 lakhs, will be paid out of general

reserve. The net profit amounts to Rs 95.38 lakhs against Rs 64.21 lakhs. The proposed dividend to be paid out of general reserve will absorb Rs 36.63 lakhs against Rs 25.44 lakhs.

ASSO BATTERY

The directors of the Associated Battery Makers (Eastern) Limited have decided to maintain the dividend at 15½ per cent on the equity capital of Rs 1.77 crores raised by the bonus issue, for the year ended August 31, 1967.

CENTRAL INDIA SPINNING

The Central India Spinning, Weaving and Manufacturing Company Limited has passed over the dividend for the year 1966-67. The profit before providing Rs 28.83 lakhs for depreciation amounts to Rs 11.78 lakhs against a loss of Rs 14.32 lakhs in the previous year. The turnover is around Rs 702 lakhs against Rs 670 lakhs. The number of working days in the year were curtailed by the compulsory holidays due to cotton shortage and the load shedding programme laid down by the Maharashtra State Electricity Board.

INDIAN ALUMINIUM

The half-yearly report for first six months of 1967 of the Indian Aluminium Company Limited, reveals a rise in sales to Rs 9.45 crores as against Rs 7.16 crores in the corresponding period of 1966. There has been a substantial improvement in the company's profit over the corresponding half-yearly period in 1966. The profit, after providing for development rebate and taxes is Rs 1.12 crores as compared to Rs 91 lakhs during the first half of 1966. With full supply of power, the Alupuram smelter operated at capacity. This, together with improved operating efficiencies, helped to offset the adverse effects of the power-cut at Hirakud and of general inflationary trends. The report also reveals that, towards the end of the half-year, sales were seriously dislocated on announcement by the government of steep increases in excise duties on aluminium products. But for this dislocation, the results would have been even better. With the commissioning of additional power generation facilities in Orissa and in Kerala, it is expected that the company will henceforth be able to operate its smelters at the rated capacity. Operations at the foil plant at Kalwa continue to improve and output at the company's other plants in different parts of the country has been maintained at normal levels.

INDIAN HUME

Indian Hume Pipe Co. Ltd, has proposed an equity dividend of 10 per cent for the year ended June 30, 1967 on its higher capital of Rs 120 lakhs. For the previous year, it had paid a dividend of 15 per cent on a capital of Rs 60 lakhs. The company had issued during the year rights shares worth Rs 20 lakhs in the ratio of one share for every three held and bonus shares of the value of Rs 40 lakhs in the one-for-two ratio. The rights shares will rank for a proportionate dividend, but the bonus shares will be entitled to the full dividend. The company has earned a lower gross profit of Rs 44.45 lakhs against Rs 79.37 lakhs despite a rise in sales to Rs 5.46 crores from Rs 5.29 crores. Allocations are: depreciation Rs 20.22 lakhs, managing agents' commission Rs 2.34 lakhs, taxation Rs 12.50 lakhs and development rebate reserve Rs 1.18 lakhs.

MORARJEE MILLS

Morarjee Goculdas Spg. and Wvg. Co. Ltd, proposes to maintain its equity dividend for the year ended June 30, 1967 at Rs 15 per share. The company has produced a lower gross profit of Rs 40.79 lakhs for the year against Rs 48.46 lakhs for the previous year in spite of a substantial increase in its net sales from Rs 8.69 crores to Rs 9.83 crores. Of the gross profit, it has provided Rs 27.55 lakhs for depreciation against Rs 26.59 lakhs, but the provision for development rebate reserve has dropped from Rs 7 lakhs to Rs 35,000 and that for taxation

from Rs 1.40 lakhs to Rs 70,000. The transfer to general reserve has been pruned from Rs 14.18 lakhs to Rs 11.80 lakhs. The proposed equity dividend will absorb Rs 11.21 lakhs and the preference dividend Rs 1.11 lakhs.

KISHCO MILLS

Kishco Mills' fully automatic unit for the manufacture of synthetic and cotton blend fabrics was inaugurated recently by the union Home Minister, Mr Y. B. Chavan. This unit is expected to manufacture suitings in width up to 225 cm. in terene, polimiade, acrylic-cotton blends. The fully automatic nature of the unit will help in the reduction of cost and make the products competitive in the foreign market. The company has obtained the services of a Czechoslovak expert for the installation. The Kishco group established in 1962 Kishco Cutlery Manufacturing Co. in collaboration with Seki Cutlery Manufacturing Company of Japan. The Kishco Cutlery Company has succeeded in exporting a considerable quantity of tableware, cutlery, bar tools, ash-trays and various other items.

THE TRADERS BANK

The directors of the Traders Bank Ltd. revealed in the annual report for the year ended December 31, 1966 that the deposits including the amount pertaining to closed fund, at the end of the period stood around Rs 10.20 lakhs and the advances were Rs 19.76 lakhs out of which advances outside India were Rs 17.01 lakhs. The directors stated that due to abnormal relations continuing between India and Pakistan no realisation could be possible and the assets held in Pakistan still stood frozen. The bank's application claiming higher compensation for the bank's landed property in Raj Nagar colony is still pending in the Delhi High Court and had not been listed for hearings. The directors hoped that with the realisation of enhanced compensa-

tion the bank would be in a position to show better profits in the coming year.

FIBRE FOAM

Fibre Foam Private Limited has made substantial progress during 1966 with its turnover touching Rs 20 lakhs. It is proposed to be stepped up to Rs 50 lakhs during the current year. As a packaging material fibre foam has good export possibilities. The company is negotiating with East European countries, the US, and other continental countries for export of its products. The demand for fibre foam within the country is estimated at Rs 10 lakhs annually, of which half is taken up by Dunlop, while the rest is met by five other manufacturers. The company has an installed capacity of Rs one crore which is expected to be reached in a year or two. The company's factory is situated at Balipatnam in Cannanore (Kerala).

IMPERIAL TOBACCO

Imperial Tobacco Co. of India Ltd. has declared a taxable interim dividend of three per cent for the year ended March 31, 1968.

UNIT TRUST PRICE

The Unit Trust of India has raised the sale price of its units by five paise to Rs 10.20 per unit with effect from October 27. The repurchase price remains unchanged at Rs 10 per unit.

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 consents are valid for 12 months.

The National Rayon Corporation Ltd, Bombay, has been

THE UNITED COMMERCIAL BANK LIMITED

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

AUTHORISED CAPITAL	.. ..	Rs. 8,00,00,000
SUBSCRIBED CAPITAL	.. ..	Rs. 5,60,00,000
PAID-UP CAPITAL	.. ..	Rs. 2,80,00,000
RESERVE FUND AND OTHER RESERVES (31-12-1966)	.. ..	Rs. 4,00,00,000

DIRECTORS

I. P. GOENKA
Chairman

M. P. BIRLA
Vice-Chairman
ANANTA CHURN LAW
G. D. KOTHARI
RANG NATH BANGUR
MOHANLAL NOPANY
YOGINDRA N. MAFATLAL

MADANMOHAN R. RUIA
Vice-Chairman
MOTILAL TAPURIAH
T. S. RAJAM
SHRENIK KASTURBHAI
S. T. SADASIVAN
DR. R. R. HATTIANGADI

BRANCHES

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

BUSINESS AND SERVICE

Current Accounts opened. Fixed Deposits received for long or short periods. Savings Bank Accounts. Recurring Deposits for accumulated capital in convenient monthly instalments. Foreign Currency and Rupee Travellers' Cheques sold and encashed. Other types of domestic and foreign exchange business.

R. B. SHAH
GENERAL MANAGER

accorded consent to capitalise 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 capitalise 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 capitalise 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 & Pressing (P) Ltd., Bombay, has been accorded consent to capitalise 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 capitalise 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 capitalise 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 capitalise 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 capitalise 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 & Iron Ores Ltd., Mysore, is permitted to capitalise 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 pig iron project. This would be allotted to Industrial & Mining Investment Corporation, Luxemburg.

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 16, 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 East Tetulmari Colliery Co., P.O. Sijua (S. Rly.) Dhanbad, Bihar. (Tetulmari Colliery, Dhanbad, Bihar): Coal—20,320 tonnes per annum (C.O.B.); M/s Sial Ghogri Colliery, P.O. Junnordeo (C. Rly.), Chhindwara (M.P.). (Sial Ghogri Colliery, (Maharashtra): Coal—44,000 tonnes per annum. (C.A.B.); M/s Bhowra Kankanee Colliery Ltd, 25, Brabourne Road, Calcutta-1. (Amlabad Colliery, Bihar): Coal—4,80,000 tonnes per annum. (S.E.).

Inorganic Heavy Chemicals

M/s WIMCO, Indian Mercantile Chambers, Nicol Road, Ballard Estate, Bombay, (Maharashtra): (i) Potassium Chlorate—900 tonnes per annum; (ii) Sodium Chlorate—3000 tonnes per annum. (S.E.); M/s Jayashree Chemicals Ltd, 14, Netaji Subhas Road, Calcutta-1. (Ganjam, Orissa): (i) Hydrochloric Acid—15,000 tonnes per annum; (ii) Calcium Hypochlorite—33,000 tonnes per annum. (N.A.).

Insecticides

M/s Bharat Pulversing Mills (P) Ltd, Hexamar House,

Sayani Road, Bombay-28 (DD) (Maharashtra): Nickle Chloride—150 tonnes per annum. (S.E.).

Drugs & Pharmaceuticals

Boots Pure Drug Co. (India) Ltd, 17, Nicol Road, Bombay-1. BR (Sion, Bombay, Maharashtra): Penicillin Eye Ointment—Existing capacity per annum 2,40,000 tubes; Capacity after expansion per annum—24,00,000 tubes. (S.E.); M/s Sarabhai Chemicals, Wadi Wadi, Baroda, (Gujarat): (i) Mint-O-Mag—50 kilo litters per annum; (ii) Kanamin Tablets—38,00,000 tablets per annum. (S.E.);

LETTERS OF INTENT

Fuels

M/s Oriental Coal Co. Ltd, P.B. No. 2037, Calcutta-1. (Kamptee Colliery, Kamptee, Maharashtra): Coal—50,000 tonnes per annum after expansion. (S.E.).

Electrical Equipment

M/s Electrical Lamp Manufacturers (India) Pvt. Ltd, 1, Taratolla Rd., P.O. Garden Reach, Calcutta-24. (West Bengal): Leading in Wires—210 Million Pieces per annum after expansion. (S.E.).

Telecommunications

M/s Telerad Private Ltd, Atlas Mills, Reay Road, Bombay-10. (Maharashtra): Radio Receivers—from 40,000 nos. to 2,00,000 nos. per annum. (S.E.).

Industrial Machinery

M/s Industrial Gases Ltd, 15, Ganesh Chandra Avenue, Calcutta-1. (Uttar Pradesh): Oxygen, Nitrogen and Acetylene Plants—worth Rs 52.49 lakhs per annum. (N.A.).

Engineering Industries

M/s Steel & Allied Products Ltd, 6, Little Russel Street, Calcutta-19, Majerhat, West Bengal: Milling Cutters (all types) and Gear Hobs—10,800 Nos. per annum. (N.A.); M/s Hada Tools Ltd, 4-A, Council House Street, Calcutta-1. (West Bengal): Hobs—7,000 Nos per annum (N.A.).

Chemicals

M/s Polychem Limited, 7, Jamshedji Tata Road, Churchgate Reclamation, Bombay-1. (Bombay, Maharashtra): Styrene Monomer—from 10,000 tonnes to 14,000 tonnes per annum. (S.E.); M/s Bharat Pulverising Mills (P) Ltd, Hexamar House, Sayani Road, Bombay-28. (Bombay, Maharashtra): Micronised Celloidal Wettable & Dumping Sulphur—1500 tonnes per annum. (N.A.).

Food Processing Industries

M/s Maize Products, P.O. Kathwada Maize Products, Ahmedabad-2. (Gujarat): (i) Bacterial Amylase and (ii) Bacterial Protease—0.40 million gallons per annum. (N.A.).

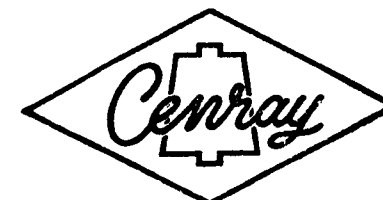
Leather, Leather Goods

M/s Chrome Leather Co. (Pvt.) Ltd, Chromepet, Madras. (Tehsil Saidapet, Distt. Chingleput, Madras State): Footwear—2.25 million per annum. (S.E.).

LICENCES REVOKED OR SURRENDERED

(Information pertains to particular licences only)

M/s Vidarbha Steel (P) Ltd, Bombay—High Tensile Steel Wires; Shri T.S.A. Rahim, Calcutta—Guillotine Plate Shearing Machines, Universal Punching and Shearing Machine, Plate Bending Machines, etc.; M/s Ashok Engineering and Construction Co. Calcutta—Pneumatic Tools; M/s Bombay Housing Corporation, Bombay—Plastic Paper Laminates; Licensee: M/s Raghunath Metal Industries, Chittoor (Andhra Pradesh). Undertaking: M/s Andhra Precision Engineers (Private) Limited, Hyderabad—Screw Taps, Adjustable Tap Wrenches, Dies and Die Holders; Shri Chandulal Dahyabhai, Vyara, District Surat. (Gujarat State)—Water Meters; M/s J.K. Traders Ltd. Kanpur—Oxygen & Dissolved Acetylene; M/s Elgin Mills Company Ltd, Kanpur—Terry Towelling Cloth.



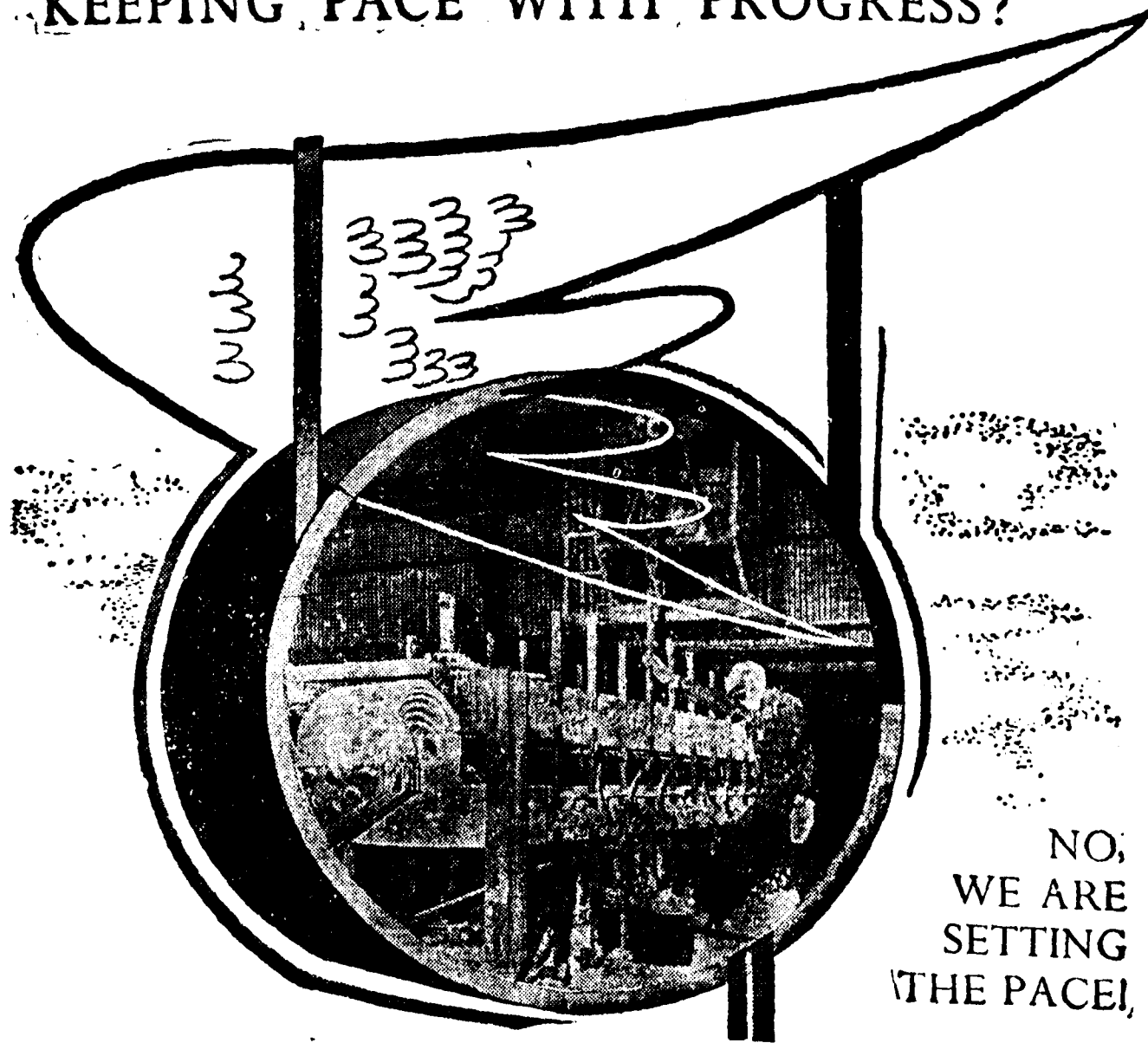
FABRICS

Every Beauty is a Queen in exquisite Cenray fabrics



Cenray fabrics a division of **CENTURY RAYON**
Industry House, 159 Churchgate Reclamation, Bombay 1.

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.

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

PRS/MAC-4/67

BOOKS BRIEFLY

Tax Incentives for Economic Growth

Foreign Tax Policies and Economic Growth: Published by Oxford & IBH Publishing Company, Calcutta; 1966; Pages 482; Price Rs 65.

Reviewed by S. S. M. Desai

Since the early 1950's the growth rates of the economies of a number of western countries and Japan have been significantly higher than that of the United States. During the decade 1950-60, the average rate of growth in real gross national product was 9.5 per cent in Japan, 7.7 per cent in West Germany, 6.0 per cent in Italy, 4.4 per cent in the Netherlands and 4.2 per cent in France as compared with 3.3 per cent only in the United States. The differences, it was thought, might be due to differences in tax systems and the "use of special tax devices to spur economic growth." A conference held under the auspices of the National Bureau of Economic Research and the Brookings Institution sought specially prepared papers from the representatives of the countries concerned which gave particular attention "to tax provisions intended to influence the amount and character of private capital formation, research and development, application of technological advance in production processes and business savings." The exercise was undertaken to see whether significant generalizations could be made from the experience of these countries. Sweden and Britain, though with smaller growth rates than that of the United States, were also included as their tax systems contained some special tax measures designed to promote economic growth. The book under review contains the seven major papers and the comments of discussants.

Rapid Capital Formation

Mr Ryutaro Komiya (Japan) is of the opinion that rapid economic growth of Japan during the 1950's was due, to a large extent, to allocation of a large proportion of gross domestic product to capital formation. Low level of government expenditure due to low level of expenditure on defence and security resulted in low level of taxation which contributed increasingly to rapid capital formation in the private sector. High levels of personal savings were also due to high rate of growth in real per capita income and increasing ratio of bonus income to wage and salary income. Declining ratio of direct to indirect taxes was another factor, though this meant a decline in the progression of the Japanese tax system as a whole. In respect of corporate savings, special tax provisions such as tax exemptions granted to new products and products meant for export, permission to set up tax-free reserves for a variety of purposes and special provisions for accelerated depreciation of assets for modernization of industrial factories have all played their part in boosting them.

Mr Karl Hauser (West Germany) turns his attention to the effects of taxation on work, investment, saving incentives and modernization and rationalization of industry. There is no doubt that taxation policy was at least partly responsible for the marvellous recovery of West German economy during this period. Broadly, the overall taxation policy helped to increase rates of both personal and corporate savings.

As regards corporate savings, special depreciation allowances were granted to businessmen and farmers who reinvested in their own enterprises and in the case of business only half of the income left in the business was subject to personal income tax, thus compelling entrepreneurs to reinvest at high rates. Tax encouragement was also provided for investment in some special cases such as housing construction and ship-building. Also, for industry generally a shift from the straight-line to the declining method of depreciation at twice the

straight-line rate was effected after 1951. These measures stimulated capital goods industries, often resulting in over-capacity.

Mr Francesco Forte (Italy) has stated that in Italy there was a steady rise in national tax revenue, both in absolute terms and as a percentage of national income, rising from 15 per cent of the national income in 1949 to 21 per cent in 1961. Of the tax revenue at the national level, 75 per cent was from indirect taxes, including the general sales tax which yielded more than all the direct taxes combined. The consequence was that the Italian tax system tended to be quite regressive, favouring accumulation of savings mostly by the upper income classes. On the other hand, public investment out of increasing national revenue also rose sharply as government increased its investment in public enterprises, highways and education. This public expenditure also favoured growth.

Mr Cornelis Goedhart (Netherlands) devotes particular attention to the methods adopted for ensuring adequate level of national saving, since this rather than the stimulation of investment has been the main problem in the Netherlands. A major influence on saving has been the policy of financing a high proportion of government outlays from tax revenue, the government's aim being to maintain as high a ratio as possible of saving (investment) to national income by high level of "tax-forced savings". The Netherlands tax system has drawn a high proportion of its revenue from direct taxes and has thus emphasized tax equity through the principle of progression. Further, the author considers that "tax incentives to encourage private saving have been considerably more effective when they have been directed at raising the level of business saving." Investment rebates and accelerated depreciation allowances are cited as the most important devices of this type. Goedhart's general conclusion is that investment in the Netherlands since the war has been increased by tax rules favouring the use of retained business earnings for reinvestment and allowing unrestricted compensation for initial losses.

Simplified System

According to Mr Pierre Tabatoni (France), the tax reforms in France after the war aimed at three objectives: simplification, neutrality and increasing the effectiveness of the system as an instrument of economic policy. The complex turnover tax was transformed into a tax on value added. Provisions were introduced to encourage business saving and investment. And to achieve the last objective supplemental depreciation allowances, deferred tax on gains reinvested in depreciable facilities and tax-free revaluation of fixed assets and loss carryovers were provided. Tabatoni concludes that these new techniques "encouraged business firms in France to draw on internal resources for the financing of investment, that they have contributed to improved management techniques by encouraging mergers and other forms of business consolidation and that they have strengthened the position of French firms in foreign markets."

Messrs Leif Muten and Karl Faxen (Sweden) take exception to the tendency among some tax experts to overstate the effects of tax measures upon economic actions of firms and individuals and they contend that "there is still much to be learnt about growth process itself and the extent to which it can be influenced by tax policy."

Mr Alan Williams opines that the British government also indulged in a certain amount of fiscal experimentation during this period such as differentiation between distributed and undistributed corporate profits for purposes of taxation, various capital recovery allowances and the tax reliefs in the case of

innovations and risk-bearing, which did accomplish something by way of increased capital formation. Mr Williams however concedes that the growth aspect of these policy measures has usually been incidental to their main objectives and that their impact on growth was "erratic and rather haphazard."

In the conference where the above seven countries were represented, though no unanimous conclusions were reached concerning tax policies and their impact on economic growth, there did appear to be substantial agreement on a number of important points. It was felt that it was difficult to "relate differences in the growth rates of various countries to differences in specific tax policies", and that "many more quantitative studies need to be undertaken in this area if the future tax policies of the advanced industrial nations are to be based on sound evidence of their consequences for growth."

Though conditions in our country are different from those in the advanced countries mentioned above, we also will have to make a serious beginning in the sphere of empirical research to assess the effects of general taxation policy and of specific tax measures on economic growth. This book is a must for the students of public finance and of growth economics.

AIR TRANSPORT

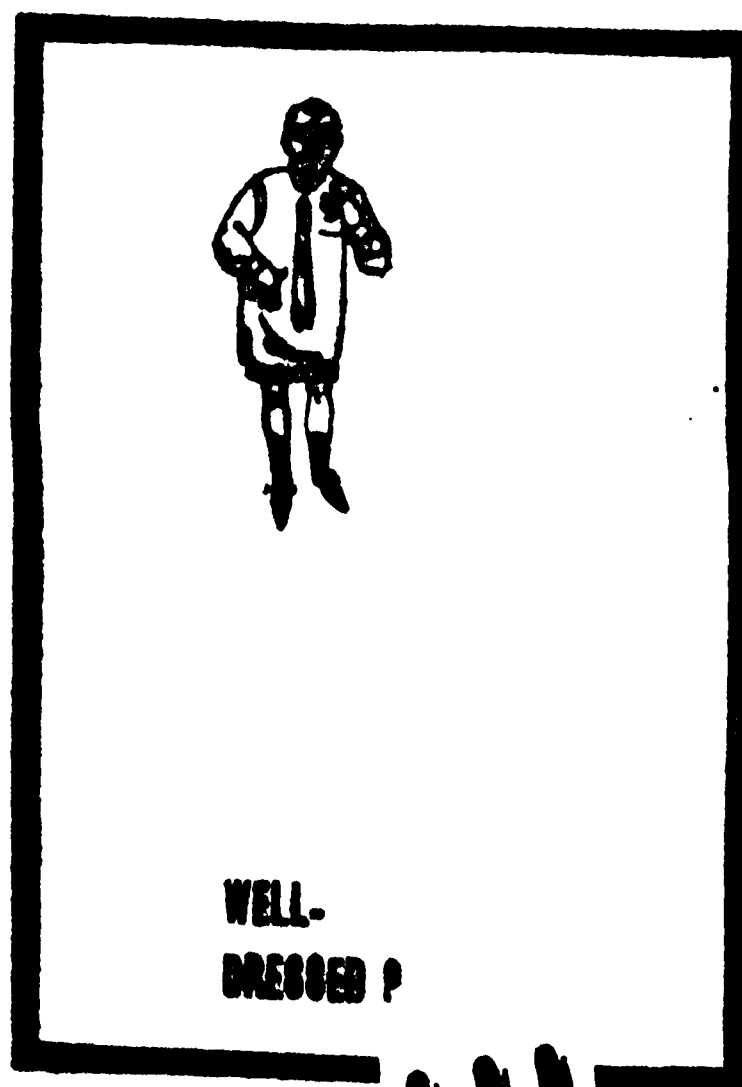
Comparative Evolution of World Air Transport: by A. W. Nawab; National Publishing House, New Delhi-7; Price Rs. 30.

Reviewed by Dr H. B. DESAI

The book gives a comparative history of the development of air transport in Europe, America and India and is a good addition to the otherwise scanty literature on the subject. For the benefit of the lay reader, a chapter on aerodynamics has been provided. As a terminal point, an airport plays a crucial role in the efficient conduct of air services. The author has, therefore, devoted two chapters to airports—one giving history of their evolution, management, classification and importance in national security, and the other surveying some of the important airports in the world. The need for regulation and control over air industry by the state is discussed with reference to a few selected countries. In the succeeding two chapters, the necessity of governmental aid to commercial air transport has been highlighted. There is also a chapter on the mode of public aid in France, Germany, the USA, the UK and Canada. The last three chapters deal with the development of Indian air transport and government aid to civil aviation with special reference to the development of airports.

It stands to the credit of the author that he has been able to pool considerable information on world civil aviation in a single volume. The book could have served its purpose better had it been divided into chapters on the basis of individual countries under study, for the evolution of civil aviation in a country is conditioned by a given geopolitical set-up. That would have also given the author a national perspective for reflection with a view to drawing useful lessons for our country, which has much to learn from other countries in a hazardous industry such as civil aviation.

The book should have also included a chapter on determination of air freights and passenger fares and formulation of tariff for that would have enhanced its value and made for a logical sequence of a discussion on freight rate policy following the study of the various cost constituents. The constitution and functions of International Air Transport Association, given in the Appendix, will be found useful by students of the subject. A discussion on the actual working of International Air Transport Association and on its problems and prospects would have made this part of the book analytical and pragmatic rather than descriptive as it at present is. There is thus considerable room for improvement in the subject-matter, sequence of chapters and treatment of the subject which, we trust, the author would make in the next edition.



NO!!!

**SO IS
YOUR FLOOR
WITHOUT**

LINOLEUM

To every floorcovering problem-Linoleum is the answer!

LINOLEUM

For better Living!

INDIA LINOLEUMS LTD. 14, Radha Bazar Lane, Calcutta-1

RECORDS AND STATISTICS

ARC's Report on Public Enterprises

"THE BEST way to enable an undertaking to be run with the greatest efficiency is to confer on it maximum possible autonomy and hold it accountable for performance," said Mr K. Hanumanthaiya, MP, Chairman, Administrative Reforms Commission, in his letter forwarding the Commission's report on public sector undertakings to the Prime Minister. The report is unanimous, all the other members of the Commission, Mr H. C. Mathur, MP, Mr H. V. Kamath, Mr D. Mookerji, MP and Mr V. Shankar, Defence Secretary, besides the Chairman, having signed it. The report was received here by the Deputy Prime Minister, Mr Morarji Desai, in the absence of the Prime Minister. Mr V. V. Chari, Secretary of the Commission presented the report.

Mr Hanumanthaiya added: "In this connection, I would refer to a few of the more important recommendations. We have recommended the setting up of 'sector corporation', one for each specified major area of enterprise having as its main function the promotion and development in that area, including the setting up of new projects. 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.

"A reorganisation of the Bureau of Public Enterprises has been recommended with a view to making it a more effective service agency for the ministries and the public undertakings.

"Another recommendation breaking new ground relates to the constitution of several audit boards for conducting the efficiency audit as well as for making appraisal of performance. Each audit board would deal with certain specified areas of enterprise.

"The control and supervision of Parliament have to be made more effective and purposeful. We have, therefore, suggested that time must specifically be set apart for discussion by Parliament of the working of the public undertakings."

Pivotal Effort

Earlier in his letter Mr Hanumanthaiya observed: "Public undertakings constitute the pivot of government effort to speed up economic progress and bring into existence a socialist pattern of society. The investment made in, and encouragement given to, public undertakings are unprecedented and high hopes have been raised of their performance. While it has to be recognised that they have made considerable contribution to the economy of the country, it is equally evident that their performance has not been up to mark. The size of cumulative and annual losses that a number of them have incurred, cause concern. The quality and price of goods manufactured have not in many cases given full satisfaction.

"There are very many reasons for this state of affairs; the principal one pertains to organisation and management. A public undertaking has to be worked with public spirit. The management and labour have both to realise that public undertakings are the property of the people, to be run for general good, and that personal gain, selfish ends and sectional interests have to be eschewed.

"Public undertakings have to work on business principles and employees therein must depend on merit, and not on inbuilt security. At the same time the promotion prospects must be

such as to facilitate the lowest employee to rise to the highest position, if he has the requisite qualifications and ability. The practice of deputing government officers for temporary service in public undertakings should cease."

The ARC has praised the work done by the study team on public sector undertakings constituted by it. The team was headed by Mr Ravindra Varma and included as members Mr P. R. Ramakrishnan, Mr P. Venkatasubbaiah, MP, Mr Kripal Singh, Mr R. C. Dutt, Major-General Sardanand Singh (Retd.), Mr Prakash Tandon and Mr S. T. Raja. Mr Nareesh Chandra worked as secretary of the team. Referring to the study team's work, the ARC has remarked, "the team has approached its task with a freshness and clarity of outlook and its report has highlighted, in an objective and comprehensive manner, major defects and deficiencies in the working of the public enterprises".

The Commission's 220-cyclostyled page report containing 63 recommendations is based mainly on its examination of the report submitted last June by the study team. The Commission has also taken into consideration additional material and examined a number of important witnesses. The Commission also visited six public undertakings and held discussions with senior executives and trade union leaders on the spot. The chairman himself visited four other undertakings. The Commission has agreed with almost all the major recommendations made by the study team. The work of the study team was guided by Mr H. C. Mathur, the Member in charge of this subject in the Commission.

The Prime Necessity

In recommending reforms for overcoming the existing deficiencies, the Commission has kept in view the prime necessity of clothing each operational unit with powers necessary for its functioning with speed and efficiency, and without hindrance and interference from outside in its day-to-day administration. Importance has been given to effective parliamentary supervision and government control, but in a way that leads to the best possible balance between the needs of accountability and control on the one hand and operational autonomy on the other.

"Another basic consideration is the urgent need for developing strong management institutions in different sectors of industry to take care of promotional and developmental needs of these sectors and for planning their expansion.

The importance of human factor at managerial and operating levels has been emphasised for securing greater motivation of workers for increased productivity of public enterprises. It has been emphasised that nationalisation does not mean bureaucratisation; public enterprises while having the requisite degree of autonomy should also be responsive to the needs and interests of the community. The report observed: "Planned economy and growth of the public sector in a big way are difficult without a total national effort...the performance of the public sector should be such as to inspire confidence and a sense of pride in the minds of the people."

The most important recommendation relates to the setting up of statutory sector corporations in different areas of industrial enterprise, viz., (i) iron and steel; (ii) engineering and machine tools; (iii) electricals; (iv) coal and lignite; (v) petroleum and petrochemicals; (vi) mining; (vii) fertilisers; (viii) chemicals and drugs; (ix) aviation; and (x) shipping. All the operating units in these sectors which are owned by the gov-

ernment will become the constituent units of the appropriate sector corporations.

It is proposed that the sector corporation should be entrusted with the general responsibility for making the required promotional and developmental effort in that sector, including the setting up of new projects and for providing common services in research and consultancy, training, sales promotion etc., evolving of a common wage policy for its employees, checking the internal budgetary programme and reviewing progress of work in the constituent units. Undertakings having an element of private participation in capital will continue as companies, but the state-owned shares in such companies will be held by the appropriate sector corporation.

It has been emphasised that with the setting up of large sector corporations steps will have to be taken to ensure that under the weight of their size and authority, the corporations do not crush operational autonomy of their constituent units. Towards this end, functions of a sector corporation have been defined in clear and specific terms making decentralisation of authority to the units one of the specific responsibilities of the sector corporation.

Bureau of Public Enterprises

To reduce the multiplicity of co-ordination arrangements existing at the government level for dealing with work relating to public enterprises, a more compact and centralized arrangement has been suggested by expanding the present Bureau of Public Enterprises and by properly defining its role as a service agency and not a controlling body. Work relating to public undertakings now being done in the Planning Commission's Management Division under Committee on Plan Projects, Home Ministry and the Project Co-ordination Division of the Ministry of Industrial Development should be entrusted to the Bureau. The Bureau should be located in the Ministry of Finance. It has been mentioned that for the Bureau to discharge its functions effectively, it should be well-staffed with experts in different fields and must command attention and respect for its views. The Commission has remarked that the Bureau is not intended to be a super-body and its authority will be derived, not from powers of sanction or superintendence, but from the acceptability and the qualitative content of its advice. It has been recommended that the Bureau should be headed by a person of the status of a secretary who should hold full-time charge of it.

The important duties of the Bureau will be to act as a data bank and clearing house of information on matters of common interest, to compile and analyse information relating to the performance of public undertakings and to submit reports on them to Parliament and the executive agencies of government. The Bureau is also to draw up panels of suitable persons to systematise manning of full-time posts on boards and senior executive posts in public undertakings.

In respect of audit of public undertakings, the constitution of four or five Audit Boards, based on the French pattern, has been suggested, each dealing with specified areas of public enterprise. Each Audit Board will consist of a full-time Chairman, two full-time members and two part-time members. The full-time chairman and the two full-time members will be senior officers of the Comptroller and Auditor-General's office and will be common to all the audit boards. Two part-time members of each audit board, who will be different for different boards, will be appointed by government on the basis of their experience and knowledge of industrial, commercial or financial matters. These boards will also carry out periodically a systematic appraisal of the performance of public undertakings. These changes have been suggested with a view to reducing the

multiplicity in the existing audit arrangements and for accelerating the desired reorientation in auditors' attitudes to suit the special requirements of audit in respect of public undertakings.

The setting up of Sector Corporations, the re-organisation of the Bureau of Public Enterprises and the constitution of the Audit Boards represent the three major organisational reforms that the Commission has suggested for the administrative strategy to be adopted for running the public enterprises.

Recognising the need for effective parliamentary supervision, it has been suggested that a number of days should be earmarked for discussing in Parliament the problems and working of public undertakings. The means of furnishing information to Parliament should also be improved, particularly in respect of annual reports submitted by public undertakings. The desirability of avoiding too detailed an inquiry by Parliament or going into the area of day-to-day administration has been stressed as that would tend to retard the speed of operations in undertakings, thus defeating the very purpose for which they have been set up.

A similar approach has been adopted in respect of government control of public undertakings. The report refers to the findings of the study team that while the span of government controls is wider than it need be, the effectiveness of control is not adequate. The report observes that "a well-regulated control system should ensure both managerial responsibility and freedom which constitute the hall-mark of successful commercial institutions. Control by government should, therefore, not be diffused and dispersed over all and sundry items of work, but should be confined to basic things and key points." Both in respect of parliamentary supervision as well as government control, it has been emphasised that only strategic control should be exercised based on adequate information and causing the least possible interference in the day-to-day working of the public undertakings.

Safeguarding Consumer Interests

The importance of safeguarding the consumers' interests has also been given due weight. To avoid 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 consumers' interests and for advising government and sector corporations on matters referred to them. These councils consist of representatives of organised 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.

Recommendations relating to personnel management for public undertakings flow from the prime need to develop the resources of managerial and technical personnel within the public sector itself. In making appointments to senior posts, the basic principle has to be that a person from the lowest rank of service can rise to the top if he acquires the necessary qualifications and if his performance is outstanding. The dependence on deputationists for manning posts in public undertakings has to be reduced and eliminated as it hampers the growth of personnel resources in the public sector. It has been recommended that every public undertaking should formulate and implement effective career development programmes to be able to recruit, train and develop competent managerial and technical personnel in the public sector.

As for management boards of public undertakings, the Commission says, they should generally be of a mixed type having a full-time chairman-cum-managing director, a few full-time functional directors, two governments representatives and two or three part-time non-official members having experience

and knowledge of trade union organisation, industrial, commercial or financial matters. A mixed type of board has been suggested because the existing policy-making type of boards have not been able to give sustained and competent direction from the top.

To preserve the autonomy of public undertakings and to enable management boards to shoulder full responsibility, it has been suggested that all appointments below the board level should be made by the board and powers in this respect should not be reserved to government. Exceptions have, however, been made in the case of general managers and financial advisers of constituent units of sector corporations where the board will make appointments in consultation with government.

For senior officers occupying posts above a salary level of Rs 1300 per month or so, powers for recruitment, promotion and training will be with the sector corporation. For lower categories of personnel, all powers with respect to recruitment, promotions, training, control and discipline should be conferred on the constituent unit in respect of officers and workers of that unit. For senior officers also working in a constituent unit, it has been suggested that the administrative and disciplinary control over them should vest in that unit in the same way as in the case of officers belonging to All India Services who are appointed by the central government and allotted to the various state governments. Powers to their appeals and for inflicting major punishments on senior employees have been kept with the sector corporations.

In the field of industrial relations and labour welfare, reforms have been suggested for overcoming problems of proliferation of trade unions and inter-union rivalries and adverse effects these have on labour-management relations leading quite

often to cessation of work, strikes and even acts of violence. It has been suggested that a system of election should be introduced in the public undertakings under which workers elect their representatives to negotiate and bargain on their behalf in all labour matters; the election should be held every two years on the basis of each worker having one vote.

The proposed arrangement does not exclude trade unions, but provide for unions to nominate and canvass for candidates in the same way as political parties function during general elections and local elections. Measures have been suggested to strengthen the joint consultative machinery and to make the negotiating and conciliation machinery more effective so that strikes etc, which are incongruous in the public sector, may be avoided.

Focal Point

Securing greater motivation of workers for increasing labour productivity and profitability of public enterprises has been kept as the focal point of reforms in this area. On the strength of experience gained in other countries, it has been suggested that suitable incentive schemes should be worked out by which the earnings of workers, subject to a prescribed minimum and maximum, are linked to his productivity. For this it has been suggested that incentive schemes should be drawn up taking into account existing levels of productivity and prescribing realistic targets in terms of production and reduction in costs.

It has been suggested that for reducing expenditure on townships and allied facilities, the outlay on which so far has been on a liberal scale, standards should be worked out by the Bureau of Public Enterprises and government should see that they are adhered to by public undertakings. For the manage-

AN EASTERN ECONOMIST PUBLICATION

INDIA'S PROGRESS SINCE INDEPENDENCE A STATISTICAL BIRD'S-EYE VIEW

This effort at the statistical presentation of India's progress since Independence in the main directions of social and economic evolution was first undertaken in April, 1963. The present publication, which is the third edition, has benefited from the experience gained of readers' reactions to the earlier editions. Although an attempt has been made naturally not only to bring the statistics up-to-date but also to revise the contents in order to make them more interesting and informative, we have found it profitable to stick to the original idea of maintaining a combination of comprehensiveness in outline and selectivity in detail. This volume is not by any means intended to be even a summary of the nation's progress in the last 20 years. Its aim simply is to indicate broad trends and developments in a statistical form. The book is priced Rs. 5 per copy.

Please fill in properly the coupon below and send it to us for your copy/copies.

Please cut here

The Manager
THE EASTERN ECONOMIST LIMITED
United Commercial Bank Building
Parliament Street
New Delhi.

Dear Sir,
Kindly despatch a copy of your brochure "INDIA'S PROGRESS SINCE INDEPENDENCE" at my following address.
I am sending you Rs. 6.50/\$1.00/£0.7-0 (inclusive of packing and postage) by cheque/M.O./postal order.
Yours faithfully,

Address.....

Please cut here

GOVERNMENT OF INDIA

INDUSTRIAL LICENSING POLICY INQUIRY COMMITTEE

The Industrial Licensing Policy Inquiry Committee has been constituted by the Government of India with the following terms of reference:

- (i) to enquire 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 licences, and if they have received a disproportionately large share of such licences, whether there was sufficient justification for this;
- (ii) to 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) to 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 enquire whether, and if so, how far, 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.

The Committee will welcome any suggestions or memoranda relevant to its work, which should be sent so as to reach them by the 30th November, 1967, at the latest.

Information furnished will be used only for the work of the Committee.

Communications should be sent to the following address by registered post, acknowledgement due if desired.

SECRETARY,
INDUSTRIAL LICENSING POLICY INQUIRY COMMITTEE,
Room No. 302-C, Third Floor, 'A' Wing, Shastri Bhavan,
NEW DELHI-1

davp 677/291

EASTERN ECONOMIST

Premier Financial & Economic Weekly

PUBLISHED EVERY FRIDAY

RATES OF SUBSCRIPTION

	Inland	Foreign
Yearly	Rs 70.00	\$ 17.00 or £6-0-0

For advertisement rates and other details, please contact our offices in

BOMBAY — CALCUTTA — MADRAS — HYDERABAD — TRIVANDRUM — LONDON

or

THE EASTERN ECONOMIST LIMITED

Uco. Bank Building, Parliament Street, New Delhi-1.

Gram: Research

Phones: 384856
381899

ment of township, it has been suggested that it should be treated as a separate unit of administration, and the budget and accounts of expenditure incurred on maintenance and upkeep of the township and allied facilities should be kept and shown separately, because subsidies extended by public undertakings in this respect tend to distort its financial results.

It has further been suggested that there should be a committee of management to look after township affairs, comprising officers concerned of public undertakings and a few representatives elected by employees living in the township from among themselves. The township administration should be required to pay its way with the help of recoveries of rents and such taxes as may be imposed by the management committee of the township.

Several measures have also been recommended for improving internal management of public undertakings by adopting improved techniques in areas of planning and construction of projects, financial and materials management etc. The use of information and control techniques and budgetary devices, like performance budgeting, have also been suggested for better management of these enterprises.

The report describes the development of industrial policy since Independence, the growth of the public sector and its position today. Excluding the departmental undertakings such as the railways, posts and telegraphs etc., the capital invested in the central government undertakings in the corporate sector was only about Rs 29 crores at the commencement of the first five-year Plan. This rose to Rs 2415 crores by the end of third Plan and is now reported to be over Rs 2900 crores, i.e., over one hundred times of the investment at the start of the first Plan period. This investment has been made in as many as 76 different undertakings which cover a vast and varied range of activities from production and manufacturing to promotional and developmental as also commercial and trading operations.

The report observes that the public undertakings have

served as powerful instruments for achieving social and economic objectives and have increased indigenous production of basic goods such as steel, coal, machine tools, electrical equipment, heavy chemicals and fertilisers and petroleum products. They have, to that extent, reduced dependence on imports and resulted in considerable saving of foreign exchange. They have also given a fillip to secondary industrial activity and helped to regulate business and trade to social advantage. Public undertakings have also helped in reducing regional imbalances through a planned dispersal of new industries, increased opportunities for gainful employment and prevented concentration of economic power in private hands.

Special Features

Discussing return on the capital invested, the Commission remarks that it has been generally on the low side, but this should be judged keeping in mind certain special features of the public sector which are often disregarded, e.g., the fact that most of the capital is still tied up in undertakings under construction as a result of tied foreign aid and other factors also require substantial amounts to be set aside against depreciation. These factors make it difficult for managements now to secure good return on capital invested in public sector projects.

The report also gives an account of the defects and deficiencies in the setting up and management of the public enterprises. Due to defects in planning and delays in sanctions, there have been delays in construction in several public sector projects. Capital expenditure has been avoidably high in many cases due to inadequacies in construction planning and management.

The inability to sufficiently develop its own resources of managerial and technical personnel has been described as the most important failure of the public sector. The increasing prices of basic items such as steel and fertilisers, especially fertilisers, have also been criticised.

Fertiliser Programme

TWO FERTILISER factories in the public sector—at Gorakhpur (UP) and Namrup (Assam)—will start production in November and December respectively this year. The capacity of the Gorakhpur factory will be 80,000 tonnes a year and that of the Namrup factory 45,000 tonnes a year in terms of nitrogen. Two other fertiliser projects—in the private sector—will also go into production in November and December. These are the Visakhapatnam project with a capacity of 80,000 tonnes (nitrogen) a year and the expansion programme of Ennore fertiliser factory in Madras with a capacity of 8,000 tonnes (nitrogen). Together, the four projects would add 213,000 tonnes to the nitrogenous fertiliser capacity of the country.

Already, in June this year, the Gujarat State Fertiliser project at Baroda has been commissioned, several months ahead of schedule. Its capacity is 96,000 tonnes a year at present. The existing capacity in the country is 6,81,000 tonnes (nitrogen), comprising the factories at Sindri, Nangal, Trombay, Rourkela, Neyveli and Alwaye (FACT) in the public sector and three plants in the private sector (EID-Parry, Varanasi and Gujarat State Fertilisers). In 1969-70, five more fertiliser projects, viz., those at Durgapur, Cochin, Kota, Alwaye (FACT-fourth stage) and Baroda (Gujarat factory expansion) will be commissioned and add a further capacity of 5,76,000 tonnes

(nitrogen). In 1970-71, the factories being set up at Madras and Kanpur in the private sector and Barauni and Namrup expansion projects in the public sector will be commissioned, raising the capacity by another 6,94,000 tonnes (nitrogen). The total capacity already commissioned or firmly under implementation would, thus, be 2,164 million tonnes by 1970-71.

Apart from these, there are four projects which have already been approved in respect of which work is expected to start at an early date. These projects—at Goa, Trombay (expansion), Mangalore and Haldia—are expected to be completed by 1970-71 or, latest, by 1971-72. The capacity of these four plants together would be 771,000 tonnes.

A proposal for setting up a fertiliser factory at Kandla in the co-operative sector has recently been cleared and a Letter of Intent to the Indian Farmers' Co-operative is to be issued soon. This project with a capacity of 215,000 tonnes (nitrogen) is expected to begin contributing to fertiliser production from the first year of the fifth Plan. A Letter of Intent has also been issued to a private party for setting up a factory at Ghaziabad. This factory with a capacity of 1,60,000 tonnes is expected to be completed by 1971-72.

Apart from these, four other new projects are in the field. These are: (1) Mirzapur project, sponsored by Birlas, (2) Tata proposal for a fertiliser-cum-marine complex project at Mitha-

pur, (3) expansion of Visakhapatnam factory, and (4) by Messrs Atlantic Richfield, who have shown interest in setting up a fertiliser plant.

In the case of phosphatic fertiliser also, advance action has been taken for reaching production of a million tonnes in terms of P2O5 by 1970-71. Capacity to the extent of 286,830 tonnes of P2O5 has already been established. Several new units are due to be commissioned during the rest of the current financial year, which would raise domestic capacity to 418,958 tonnes of P2O5 by the end of 1967.

TABLE I
NITROGEN PROGRAMME

1. Existing Capacity	681,000 tonnes
2. Projects due for completion in 1967-68	
(a) Namrup	45,000 tonnes
(b) Gorakhpur	80,000 tonnes
(c) Vizag	80,000 tonnes
(d) Ennore expansion	8,000 tonnes
	213,000 tonnes
3. Projects due for completion in 1969-70	
(a) Durgapur	152,000 tonnes
(b) Cochin	152,000 tonnes
(c) D. C. M.	130,000 tonnes
(d) FACT—4th stage	22,000 tonnes
(e) Gujarat Expansion	120,000 tonnes
	576,000 tonnes
4. (A) Firm projects due for completion in 1970-71	
(a) Madras	190,000 tonnes
(b) Namrup II	152,000 tonnes
(c) Barauni	152,000 tonnes
(d) Kanpur	200,000 tonnes
	694,000 tonnes
4. (B) Projects approved but work yet to start—likely to be completed by 1970-71 and 1971-72	
(a) Goa	160,000 tonnes
(b) Trombay expansion	229,000 tonnes
(c) Mangalore	240,000 tonnes
(d) Haldia	142,000 tonnes
	771,000 tonnes
4. (C) New projects—expected to be completed in 1970-71 and 1971-72	
(a) Modi (Ghaziabad)	160,000 tonnes
(b) Kandla (Co-op.)	215,000 tonnes
	375,000 tonnes
SUMMARY	
1. Existing	681,000 tonnes
2. 1967-68 Additional	213,000 tonnes
3. 1969-70 Additional	576,000 tonnes
4. (A) 1970-71 Additional	694,000 tonnes
4. (B) 1970-71 and 1971-72 Additional	771,000 tonnes
4. (C) 1970-71 and 1971-72 Additional	375,000 tonnes
	3,310,000 tonnes

The additions to capacity in the field of phosphatic fertilisers will be 45,880 tonnes in 1969-70 comprising three projects (FACT fourth stage, Kota project and Maharashtra Agro-Industries Corporation). In 1970-71, the phosphatic fertiliser capacity would increase in a major way when the projects in Madras, Trombay, Haldia and Mangalore would be commissioned. Fresh capacity from these four projects would be 378,000 tonnes of P2O5.

The statistical position in respect of nitrogenous and phosphatic fertiliser programmes is set out in the two tables below:

TABLE II
PHOSPHATE PROGRAMME

	P2O5
	(Figures in tonnes)
1. Existing capacity	286,830
2. Project due for completion in 1967-68	
(a) West India Chemicals	6,600
(b) Metal Corporation of India	12,700
(c) Alembic Chemical Works	1,680
(d) J. K. Cotton, Kanpur	6,770
(e) Bharat Fertilizer Industries Ltd	3,750
(f) Phosphate Co. Ltd, Calcutta	3,488
(g) Dharamsi Morarji	13,000
(h) Vishakhapatnam	73,000
(i) By-product Di-Calcium Phos.	11,140
	132,128
3. Projects due for completion in 1969-70	
(a) FACT IV Stage	9,200
(b) Kota (DCM)	30,000
(c) Maharashtra Agro-Industries Corp., Bombay	6,680
	45,880
4. Projects sanctioned and due for completion in 1970-71	
(a) Madras	85,000
(b) Trombay	124,000
(c) Haldia	79,000
(d) Mangalore	90,000
	378,000
5. Projects likely to be taken up and due for completion in 1970-71/1971-72	
(a) Sindri (TSP)	156,000
(b) Kandla (Co-op.)	127,000
	283,000
6. Khetri Project 100,000 tonnes will be on stream in 1971-72.	
7. Direct application of powdered Rockphosphate—100,000 tonnes P2O5 by 1970-71.	
SUMMARY	
1. Existing	286,830
2. 1967-68 Additional	132,128
3. 1969-70 Additional	45,880
4. 1970-71 Additional	378,000
5. 1970-71—71-72 Additional	283,000
6. 1970-71 Direct Application	100,000
7. 1971-72 Additional	100,000
	1,326,000

EASTERN ECONOMIST

NOVEMBER 10, 1967

On the Road to Recovery?	847
Selling Tea in Foreign Markets	848
Selective Liberalisation in Credit	849
No New Capacity Needed in Cotton Textiles	850
Economics of Rupee Trade: I—Manubhai Shah	852
Siemens Complete 100 Years in India—A Correspondent	856
FROM THE CAPITAL'S CUPBOARD Negligible Deficit Financing?	858
WINDOW ON THE WORLD Britain and Europe; What Is "Factoring"?	861
France Concedes Associate Membership to UK.	
TRADE WINDS National Income: Revised Series; Fertiliser Plant at Kandla; Credit Policy for Busy Season; Credit Control on Cotton; Trade Agreement with Bulgaria; Fertiliser Credit for Farmers; Handicrafts Export; Commercial Broadcasts on AIR.	867
CHAIRMAN'S STATEMENT Oil India Ltd.	869
COMPANY MEETING Tata Chemicals Ltd.	871
PROSPECTUS ANNOUNCEMENT Philips India Ltd.	874
COMPANY AFFAIRS Oil India; Tata Chemicals; Investment Corporation of India; Dempo Steamships; Nation-Standard Duncan; Bombay Burmah; Blundell Eomite; Kerala Rubber; Hindustan Cables; Capital and Bonus Issues; Licences and Letters of Intent.	876

Supplement on the Monetary Impact of PL 480 Finance.

ANNUAL SUBSCRIPTION
INLAND: Rs. 70.00
FOREIGN: £6-0-0 or \$17-00
Airmail & Advertisement Rates on Enquiry.

REGISTERED OFFICE:
UCO Bank Building, P. Box 34,
Parliament Street, New Delhi-1

On the Road to Recovery?

THE LIKELY output of 95 million tonnes of foodgrains in the current agricultural year has raised hopes of cheerful days ahead. It is known that the output of rabi crop—seeds for which have not been sown as yet—is included in this estimate. The agricultural pandits both in the union government and outside are certain that keeping in view the general trend in the climatic behaviour, particularly rainfall, in the past few months, there is a strong possibility that we will have anything between 90 and 100 million tonnes of foodgrains, the consensus being on the middle figure of 95 million tonnes. The reports from the various foodgrains markets tend to confirm this belief, because, despite the propped up procurement prices fixed by some of the states, prices of foodgrains have not risen and have even shown a slight downward trend in certain areas. This is a reliable indicator of the expected easiness in the foodgrains markets in the coming months. At last the misery and distress caused by the failure of the last two agricultural crops in some parts of the country is likely to come to an end and with it will vanish, it is hoped, the recessionary tendencies in industrial production and exports.

The 19th meeting of the Central Advisory Council of Industries, which is being held in New Delhi today, is likely to stress the measures which the government has taken and is likely to take in order to assist the process of recovery. The figures of industrial production are available up to July when the anticipated recovery had not taken any shape at all and hence it is not possible to draw any hopeful conclusions from these data. A historical review of the rates of growth in industrial production in recent years presents a picture which is far from reassuring. As against showing a rise of about eight per cent in 1962-63, 1963-64 and 1964-65, industrial production in 1965-66 and 1966-67 grew at the rate of only 5.5 per cent and 2.8 per cent, respectively. The quarter-wise analysis of the indices of industrial output reveals the same trend, showing a rise of 0.5 per cent in April-June this year as against 2.7 per cent in the same quarter last year and 12.5 per cent in the corresponding period two years ago. However, with the happy turn in agricultural situation, the government has already started taking some policy measures in order to stimulate economic activity in some of the selected sectors, including increase in credit facilities for purposes of indigenous production and exports and special liberalisation of credit for exporting industries. Before permitting additional imports (particularly of capital goods), greater emphasis is being put on the maximum use of the indigenous capacity. Also the structure of import duties has been rationalised to ensure that the impact on imports of raw materials and components is not higher than on the finished products. In selected fields, the public sector's orders on private sector units are being stepped up, especially in the engineering industries, in view of the anticipated upturn in economic activity in the coming months. It may be recalled that the railways had to cut back their capital expenditure and reduce their commitments in regard to new wagons because of the failure of traffic offerings to rise to the expected level. Now that the output of both agriculture and industry is likely to improve, there is bound to be an increase in the goods traffic of railways. To meet the increasing demand, railways have extended their orders to the manufacturers, though not in an entirely satisfactory way.

The new credit policy which has already come into operation since November 1 (see page 867), will also play a helpful role in providing the needed working capital to industries during the current busy season. Whether the volume of credit likely to be made available to industry will suffice or not is still to be seen, but the constructive approach adopted by the Reserve Bank in this regard is without doubt an encouraging element in the current economic situation.

The optimistic trends in the economy have also put some life into the Planning Commission which had been lying low for the last two years. The so-called bold planners have once again jumped into the arena asking for bigger

plans for the coming years though the fate of the fourth five-year Plan still remains undecided. Dr Gadgil and his team have still to produce a blue print of the fourth Plan. May be, there will not be a fourth Plan at all and the Planning Commission will rest content with annual Plans which will be realistic and will also provide the commission an opportunity to change its strategy year after year according to the developing situation.

There is no doubt that our economy is likely to stage a recovery early next year. It will, however, be futile to expect that all our problems will be solved automatically. The advantages that increased production, both in agriculture and in industry, will throw up should not be frittered

Selling Tea in Foreign Markets

DR A. WARNOD, an expert from the Food and Agriculture Organisation (FAO), now in India in connection with a study of the tea industry, suggested in Calcutta recently that it would be worthwhile investigating to what extent unsuitable and inadequate publicity had contributed to the decline in the exports of tea from this country. He pointed out that though the overall prices of tea in the world market had declined, the prices for East African teas had risen at London auctions probably because of their superior quality. He said that a "quality image" was likely to be more effective than the "Join the Tea Set" or "Drink More Tea" variety of advertising. According to him, there were two principal stigmas against this beverage: it was difficult to prepare and it was the insipid man's drink. Both these notions could be eradicated, he said, with proper publicity and image-building with an accent on quality.

The problem of making tea increasingly acceptable in the consuming countries has engaged the attention of the Tea Councils for many years. These Councils have been functioning in the USA, Canada, West Germany, the Netherlands, Ireland, Australia, France, the UK and New Zealand, and their finances are contributed by India, Ceylon, Indonesia and by the tea trade in these countries, on a mutually acceptable basis. The Councils promote the consumption of tea as such without reference to any specific brand or country. It is not clear to what extent these Councils have succeeded in their major objective. It appears that while tea consumption has shown some increase in the USA and West Germany, in the other countries the impact of the Councils has not been conspicuous. But our country has not benefited from the rising trend in tea consumption. For instance, the total tea imports into the USA went up from about 100 million lbs in 1956 to 133 million lbs in 1966. While imports from Ceylon increased from 41 million lbs to 53 million lbs in the same period, and in the case of Indonesia from 12 million lbs to 17 million lbs, imports from our country declined from 31 million lbs to 20 million lbs. In terms of value, the decline in the US imports of tea from this country was from \$ 16.86 million in 1956 to \$ 10.67 million in 1966, a fall of 36 per cent. The decline quantitatively has also been of about the same order. The contribution of tea to our total export earnings from the USA was only 3.2 per cent in 1966 as against 8.1 per cent in 1956. Ceylon has been our main rival, accounting for about 40 per cent of the US market since 1956.

away by following the fanciful paths chalked out by the dogmatists. Let the government adopt pragmatic and realistic policies which must result in increased production and exports, if it is anxious to make a fruitful use of gains bestowed upon the economy by nature's benevolence. It must pay attention to the advice of those who have closely watched the economic trends and have made some suggestions. For instance, some of our exports have languished after devaluation for want of incentives. The government should be quick in realising that devaluation alone has not made some of our goods competitive in the international markets. Further delay in the provision of incentives will jeopardise their chances of staging a recovery in the world markets.

So far as tea exports to West Germany are concerned, though there has been an increase in absolute terms, our share in the total market has not increased. In most other countries where Tea Councils have been established, our exports have fared badly. It is significant that in the UK, our largest market for tea, our exports dropped from 282 million lbs in 1963 to 216 million lbs in 1966, that is, by 66 million lbs in three years compared to Ceylon's loss of 19 million lbs. It is estimated that between 1963 and 1966, the average price in the London auctions of north Indian tea fell by 3½ pence per lb, south Indian tea by 2½ pence and Ceylon tea by 1½ pence.

These statistics indicate an imperative need to promote vigorously the image of tea as such in the consuming countries; and for India to take energetic steps to obtain an increased share of the expanding markets. Lack of finance seems to be a major handicap of the Tea Councils. For example, the Tea Councils of the USA and Canada have budgets of only \$500,000 and \$ (C) 150,000 respectively which are considered inadequate for conducting effective campaigns through television, radio, newspapers, films and women's magazines. If the Councils can enlist the co-operation of the new producers of tea such as East Africa, their financial resources can be considerably enhanced.

Our country spent about Rs 22 lakhs in the last four years on promoting tea in 14 countries of Europe. The expenditure was Rs 1.82 lakhs in 1963-64, Rs 4.06 lakhs in 1964-65, Rs 6.92 lakhs in 1965-66 and Rs 9.11 lakhs in 1966-67. The Tea Board seems to feel that it should be provided with more resources for promotional work. But what is important is to ensure that the Board spends the available funds more effectively. For this purpose, it will be desirable to delegate more powers to the Tea Board. The Board has powers to spend up to Rs 50,000 outside India. But it says that this power has been "reduced to absolute nullity" because foreign exchange is not promptly released even when required urgently. The Board therefore has taken up with the Government of India the question of block release of foreign exchange.

But even if the Board gets all the money and the powers it needs, can we be sure that it will always use them wisely? Some of the comments made by trade delegations and market surveys on the performance of the Board's publicity are hardly complimentary. For example, a market report

recently prepared by the Indian Institute of Foreign Trade said: "The participation of Indian Tea Board in the Tripoli International Fair in 1966 seemed to have helped to build up some reputation for Indian tea. Still more important achievement of this participation was that the correct ways of preparing Indian tea, to suit their tastes, were demonstrated to the Libyans. During the fair some publicity in newspapers, etc. was given to Indian tea. However, no serious follow-up arrangements were made to market the Indian teas and therefore much of the effect of sales-introduction was lost subsequently".

The promotion work relating to our tea has to be improved not only in the traditional tea drinking countries

Selective Liberalisation in Credit

WHATEVER MAY be the precise meaning of the phrase "social control over banks" according to Mr Morarji Desai and the Government of India, it is obvious that, to the layman, and more particularly to those who have been campaigning for nationalisation of banks, it has only one specific meaning, namely, that banks would hereafter be obliged to advance money more liberally, and not necessarily always on the basis of credit-worthiness. And this means that the demand for credit not only during the current busy season but in future generally will be substantially greater, and certainly not less, than in the previous years. It does not seem, however, that this important emotional aspect was taken note of by the Governor of the Reserve Bank of India (RBI) when he recently discussed the credit needs of the 1967-68 busy season on the eve of the announcement of the credit policy for that season. The factors that he considered, all generally expected, were the likely increase in the demand for credit, compared to last year, in view of the expansion in agricultural output and the expected recovery in industrial production, as also the stepping up of the government's foodgrains procurement operations. The omission is either tactfully made or is explained by the fact that the expansion likely to be occasioned as a result of the emotional factor does not lend itself even to an approximate assessment. But the authorities must be aware of the prospect all right, although they have not thrown even a remote hint to this effect. Could this perhaps also explain the studious avoidance of any qualitative indication of the extent of credit required during the current busy season? The latter could possibly be an unacknowledged response too to those who have been critical of the RBI's commencement of every busy season with the control of aggregate bank credit on a slab or ratio basis, thereby relegating even acknowledged priorities to a second place, if not secondary importance.

Be that as it may, the economy today needs substantially more credit and what matters is whether the RBI's policy is going to be flexible enough to make it possible for the banks to obtain all the money they require to keep pace with the possible rising tempo of production on the agricultural as well as the industrial fronts. Prima facie, it promises to be that, in view of the assurance of a further review of the position with bankers towards the end of January. With the price position being what it is, the Governor of the RBI could not be expected to be as rash as some of our poli-

but also in eastern Europe, west Asia, south-east Asia and Japan. In the countries of eastern Europe, no systematic efforts have been made to promote our tea, apart from participation in some exhibitions. In west Asia and south-east Asia, it is necessary to orient the campaign to suit regional conditions. That this is not always done will be clear from a recent official market survey in the Sudan. It pointed out that copies of the sophisticated Kangra Valley painting calendar for 1966 sent by the Tea Board to the Indian embassy for distribution in the Sudan were hardly picked up by the visitors and quite a few were found dusty in the chancery. The Tea Board therefore should improve its own image before it can properly project the image of Indian tea in world markets.

ticians to rush in for an all out expansionary credit policy straightaway, but he may be said to have gone as far as the prevailing circumstances permit in holding out the assurance that "the accent of credit policy will continue to be on selective liberalisation". In fact, some kind of "selective liberalisation" began in August itself, the latest being the directive by the RBI, of November 1, modifying the control on advances against cotton and kapas by scheduled commercial banks. A notable concession—and this follows the recommendations of the Working Group on Refinance presided over by Prof. Karve—is that, in respect of credit for distribution of chemical fertilisers and pesticides also, the RBI would provide refinance at the bank rate. This, as well as refinance under all other special schemes, is to be in addition to what a bank is entitled to have on the basis of the full excess of its net liquidity ratio over 30 per cent. A further measure of liberalisation in respect of interest rates, not quantum of credit, is the assurance to charge only the bank rate where the excess borrowings are for temporary periods (up to a week); even for longer periods, the governor has promised to ensure that the rate would be lower than last year. In respect of unsecured advances as well, thanks to the advice of the Working Group on Unsecured Advances, the banks are assured of some additional flexibility of operation by way of freer extension of unsecured credit for production, trade and exports. In short, the policy holds out promise of being more liberal and less exacting.

How do the scheduled commercial banks stand equipped to meet all the credit needs during the current busy season? That these are going to be more than during the 1966-67 busy season is abundantly clear. During that season, it may be remembered, the credit expansion (mainly in non-seasonal advances and not so much in seasonal advances) was of the order of Rs 425 crores, the rate of such expansion at 19 per cent comparing with that of the immediately preceding busy season (1965-66) of just 15 per cent. The pattern would certainly be different this season. Save for sugar, seasonal advances particularly are bound to increase markedly in foodgrains, cotton and oilseeds, the output of each of which has gone up appreciably. Non-seasonal advances this season are not likely to go down or even remain at the last season's level either, thanks to the RBI's many credit liberalisation measures. On account of increased foreign

trade also, there would be need for more credit. It is not easy to estimate what all these would add up to, but, according to some, the total credit needs during this busy season may not exceed Rs 400 crores, and the feeling prevails that it should not be beyond the capacity of our banks to meet them. But this is on the assumption that deposits would increase at least up to the same extent as in 1966-67 and further that banks could afford to disinvest their holdings of government securities, say up to Rs 250 crores, the rest of the gap to be taken care of by drawings from the RBI. This view is not shared by most bankers who feel that the capacity of banks to meet all the credit needs through increased deposits and liquidation of gilt-edged investments is severely limited. During the 1966-67 busy season the banks liquidated government securities to the tune of Rs 198 crores as compared to only Rs 27 crores in the preceding busy season; their deposits rose by Rs 163 crores, as against Rs 235 crores during the 1965-66 busy season, and their borrowings from the RBI increased by Rs 41 crores, as against only Rs 28 crores during the busy season of 1965-66. So, even if deposits during the current busy season rise to the same extent as during the last busy season and assuming that banks are able

No New Capacity Needed in Cotton Textiles

THE COTTON textile industry has passed through a very difficult period since the middle of 1964 and many units, particularly in Madras state and in the neighbouring areas, are not even able to recover overhead charges. It is wondered whether at all there will be a revival in demand for cloth and yarn making it necessary for the industry to formulate its plans for increasing output on a defined basis. From the long-term angle, it cannot be disputed that there will be a significant increase in the per capita consumption of cotton fabrics alone to at least double the prevailing level and with a fast growing population the output of cotton and blended fabrics in all the sectors will have to be at least three times the quantum of the past few years in the not distant future. What has been really intriguing is the virtual stagnation in the trend of consumption and a feeling in some quarters that it has become imperative to re-formulate the industry's plans for expansion and it will not be advisable to think in terms of creating fresh capacity in a big way until new trends in consumption emerged.

It will probably be incorrect to form definite ideas about the growth in demand for textile fabrics on the basis of the developments in 1964-67. For, during this period many new forces have been at work and with a decline in the purchasing power of the vast masses following a serious shortfall in agricultural production, the earlier calculations about a continuing increase in demand for cotton fabrics have not materialised. With the increase in the cost of living having a sapping effect on the fixed income groups and the reduced purchasing power of the rural population, there has obviously been a curtailment of expenditure on wearing apparel. There has also been a switch-over to the use of synthetic textiles particularly those manufactured from mineral-based raw materials. This has led to a diversion of demand from cotton fabrics but there is bound to be a parallel growth in consumption of all types of fabrics, though pure cotton fabrics may not probably be used to the

to liquidate government securities to the same extent as during the 1966-67 busy season—and this seems doubtful—borrowings from the RBI would have to be at least about Rs 100 crores, or a rise of around Rs 60 crores over the level during the 1966-67 busy season. Only the RBI can say whether it will allow this. For their part, the banks can only offer to do their best to augment deposits, but, then, the success of whatever labour they would put in for the purpose must depend on the extent to which the authorities are able to hold the price line and enable people to effect greater savings. It must be noted here that bankers have unreservedly shared the Reserve Bank governor's view that mobilisation of deposits should receive the utmost priority, but they have added a rider that the RBI should be more liberal in the matter of approving applications for opening urban branches to facilitate this. Without deprecating the RBI's bias for more banks in the rural areas, it must be pointed out that, with the present pronounced shift in population from the rural to the urban areas, the importance of the need to keep pace with the growing banking requirements of the people in the urban areas also should not be minimised.

same extent as was anticipated some years back. But in a tropical climate there will always be preference for cotton and blended fabrics and the textile industry in all its sectors and divisions will have to keep itself busy especially as the emphasis has latterly been on the maximisation of output of consumer goods and the adoption of measures which will result in a significant improvement in the standard of living of the people.

In any event, the depression in the textile industry noticeable in the past three years should not be taken as an indication that the saturation point has been reached in many directions and the textile industry should not entertain hopes of a bright future. There is certainly need for adopting a cautious policy and preventing wasteful use of scarce resources through promotion of a large number of new spinning and weaving units or through indiscriminate expansion. But the developments in 1964-67 have their own lessons which should not be overlooked. With the reports about a sharp increase in agricultural production and the likelihood of a revival in economic activity there may be a large demand for textile fabrics of all kinds in 1968. The compulsion to replenish depleted stocks in the various cupboards may even be reflected in a slightly exaggerated increase in demand for selected types of fabrics. If the favourable experience of 1967-68 is repeated in 1968-69 the uninterrupted growth in demand for cotton fabrics noticeable in 1952-64 except for a short period in 1957 might again be in evidence. The rate of growth will be less pronounced than in earlier years on account of the greater preference shown for other types of fabrics and their longer life. But as stated earlier the cotton textile industry will continue to play a dominant role in the industrial economy of the country. It will of course be necessary for the existing units to adopt new techniques of production and diversify their manufacturing lines as it has been found latterly that

there has been a distinct change in the tastes of consumers and processed quality fabrics have found a ready market.

The textile industry in Madras state is placed in a very awkward situation. Its growth since 1952 has been phenomenal. There were 183 mills in 1966 against 77 mills in 1951 out of which 158 were spinning units against 59 in 1951. The number of spindles of all units more than doubled to 3.79 million. The spinning units alone account for 2.47 million spindles against 1.22 million spindles. The increase in the number of spindles of the composite units to 1.31 million from 643,000 might give a misleading impression as many mills were classified as weaving units when they installed looms but they had a large surplus of yarn for sale to outside consumers. The growth in capacity has been most pronounced since 1957 when there was a liberalisation of the issue of industrial licences. The promotion of many co-operative units and the implementation of expansion schemes brought about sharp growth after 1962. The fast expansion of the industry coincided unfortunately with a period of stagnation in demand for cotton textiles and it became difficult for the existing and new units to utilise their full capacity.

Even in recent months there has not been any significant improvement in the offtake of yarn in spite of the fact that the composite mills are reported to be faring better. With the levy of a heavy excise duty on sized yarn and the depression in the handloom industry the spinners have been obliged to operate on slender profit margins and there is no great anxiety to increase output by introducing new shifts. If there is a revival in the demand for cotton textiles in the rural areas and there is also larger buying of yarn from weavers in north India, the spinning mills can hope to give a better account of themselves. But it is emphasised that there will have to be some restriction on the creation of

fresh capacity for two or three years until existing units are enabled to maximise their output and make the best use of available facilities. The force of this argument will be realised if it is pointed out that members of the Southern India Millowners Association in Madras state produced only 766,000 bales of yarn against 825,000 bales in 1965 and 803,000 bales in 1964. Until that year there was more or less a continuous growth and the output nearly doubled as compared to 1951. The reduced output in 1966 was due partly to restrictions on power consumption but many units welcomed the opportunity to curtail production because of accumulation of stocks. In the same period there was increase in installed capacity by 15 per cent. The industry is in a position to meet any increase in demand for cloth and yarn that might be experienced in the next three or four years.

As there are many sick units and even the efficient mills are struggling to operate profitably, it is necessary to conduct an enquiry into the working of the industry in several parts of the country in order to formulate a definite policy for developing the industry in an orderly manner in the coming years. The immediate objective should be to help the viable units to carry out their modernisation programmes on a phased basis. While the sub-marginal units should be allowed to operate only if their efficiency could be improved with the installation of balancing equipment and the renovation on a sectional basis, there will be no point in running extremely sick mills by incurring large expenditure on their rehabilitation and modernisation. The new proposals of the government should be formulated in such a way that the reorganisation of the industry in the south can be brought about in an intelligent manner, and maximum benefit can be derived by the community out of the large investment already made.



"Devaluationary greetings from friendly Indian Govt."

Economics of Rupee Trade— I

MANUBHAI SHAH

HAVING REGARD to the size of the population of our country, it will not be ambitious if we plan to secure at least one per cent of the world export trade. Our foreign trade has to be developed and diversified considerably if our economy has to become viable and strong. For this purpose, the export target of Rs 2,000 crores per annum is the absolute minimum at the end of the next 10 years.

In spite of a good rise in our exports during the third five-year Plan, the export performance has not been very encouraging. The modest momentum that our exports had picked up during the third five-year Plan period, has been lost after devaluation. The volume of exports has fallen and it will take some time before we reach the previous level. Leave alone secure an increase.

This disability—decline in our exports—is something which we share with many other developing countries. We have industrialised reasonably well during the last three Plan periods, yet our exports consist mainly of primary commodities in which the world demand is not only inelastic but is also subject to a number of inhibitions inclusive of quota and tariff restrictions. Whatever the reasons, our foreign trade does not and cannot present a bright picture unless very radical steps are taken in several directions.

In this generally depressing picture, there are a few elements which have been a source of encouragement to the country. Our trade with the United States of America has been increasing and has great future potentialities if (i) we accelerate our efforts in that direction by further sales promotion and diversification of our exports to that country and (ii) if the USA adopts more liberal and forward-looking foreign aid policies with a view to assisting us in selling more of our goods to that country.

Hopeful Element

Our trade with the east European countries has been a hopeful element of our exports. As compared to the remainder of Europe which includes the ECM and the EFTA groups and wherein our exports have received the least encouragement, our trade with the east European countries has risen at an accelerated pace. Exports to this group of countries were valued at Rs 34.26 crores in 1953-54 but in 1965-66, they rose to Rs 156.55 crores at the pre-devaluation prices (Rs 246.56 crores at the post-devaluation prices). Today the east European region is one of the three most important areas for our foreign trade. In the east European group of countries, the USSR accounts for more than half of our trade. Our exports to the USSR in 1965-66 rose to Rs 95 crores (pre-devaluation). It is obvious that the USSR has come to occupy an important place in our foreign trade. The historic background in which this position was reached needs to be explained here. Before 1947, our foreign trade was deeply involved with the British empire and was conducted on the basis of multilateralism in which the convertibility of currencies played the chief roles as the orthodox means of clearing the balance of payments. We had no well-conceived plans for industrial development of the country and by and large we exported primary products to feed the industries of other nations. Since our imports were very small due to the absence of industry, we normally secured a favourable balance of trade before Independence.

After World War II and the achievement of Independence, this country wanted to widen its industrial base which led to large scale imports of capital goods, heavy machinery and spares which rapidly exhausted our foreign exchange resources.

Our historic dependence on western countries failed to bring forth the necessary resources with which we could sustain the hard core of our plans without going down continuously on the balance of payments position. This was the situation till about the middle of the 'fifties.

Meanwhile, countries in the socialist bloc in eastern Europe which for various historic reasons formed themselves into a separate group, were achieving remarkable advancement in industrial growth. These countries—in particular the USSR—had achieved spectacular advances in industry within a few years of the end of the war. This position was attained by this group of countries more or less in isolation from the rest of the world. Each member of the Council of Mutual Economic Assistance (CMEA) has been working within the frame-work of a centrally-oriented plan. The foreign trade of each country had to be integrated with the needs of phased industrial growth within the overall targets of the COMECON development strategy. For each one of these countries, imports and exports had to be delicately matched and this could be done easily under a balanced, bilateral pattern of trade as the conditions of free economy do not have anything other than a tenuous existence in this area.

Exchange Basis

The trade amongst these countries is mostly conducted on the basis of an exchange of goods and commodities. The dependence of the economies of these countries on foreign trade has been much less than many other countries in the world; their present share is one-third of the international trade. This may be contrasted with the growth of their industries. Although the socialist countries account for one-tenth of the world population, their share in world industrial output has reached no less than 30 per cent. Their combined industrial output in 1964 equalled that of the United States and was a quarter higher than for the whole of western Europe.

Having remained somewhat isolated from the rest of the world, the east European countries including the USSR were relatively starved of convertible currency. Our position was about the same and when large-scale trade possibilities were envisaged during the latter part of 'fifties, it was getting clearer that our country and the USSR could advantageously trade with each other on a balanced bilateral basis. A scheme was evolved in which imports into this country were to be paid for in terms of export of commodities. Transactions involving free convertible foreign exchange were eliminated and the rupee came to serve as the accounting unit.

The rupee area thus came into existence from some time in 1958. The essence of the system being clearance in terms of commodities and not by currency, there ensued a number of advantages for a developing country like ours. The first was that our country was able to import such heavy plant and machinery from the Soviet Union as could not have been obtained from elsewhere except by incurring tremendous erosion in our foreign exchange resources. As the trade relationship under the rupee system developed between this country and the USSR, co-lateral arrangements on the basis of credits and long-term repayments scheme permitted a big expansion in our essential imports, as related to planning priorities. The hard core of our five-year Plans was the development of basic raw materials, heavy industry, capital goods, steel, fertilisers, and essential imports such as alloys and special steels, organic intermediates for drugs and pharmaceuticals, chemicals, petroleum products etc. In most of these fields the Soviet Union could step in with ease being prepared to buy from us some of our traditional

Who sell to over 6 lakh shops every week?

Brooke Bond!

Brooke Bond sold to 6 lakh shops last week and will be selling to 6 lakh shops every week—covering every important shop in India.

Brooke Bond make so many calls in order to serve such a vast sales area—stretching from Jorhat to Junagadh, Kashmir to Kanyakumari.

Brooke Bond also make so many calls because they supply only fresh tea and coffee and a good way to ensure this is to sell them directly to dealers and tea shops once a week. In order to do so, Brooke Bond combine organisation skill, careful planning and a high degree of individual effort.

Result: the finest distribution system in the country.

The strategic location of Brooke Bond's 6 factories enables speedy delivery to sales points—and so ensures an effective distribution of fresh stocks everywhere in India.

"To do this we use motor vans, to get fresh stocks through every

hand vans, bullock carts and even camels week," says a Brooke Bond Sales Manager.

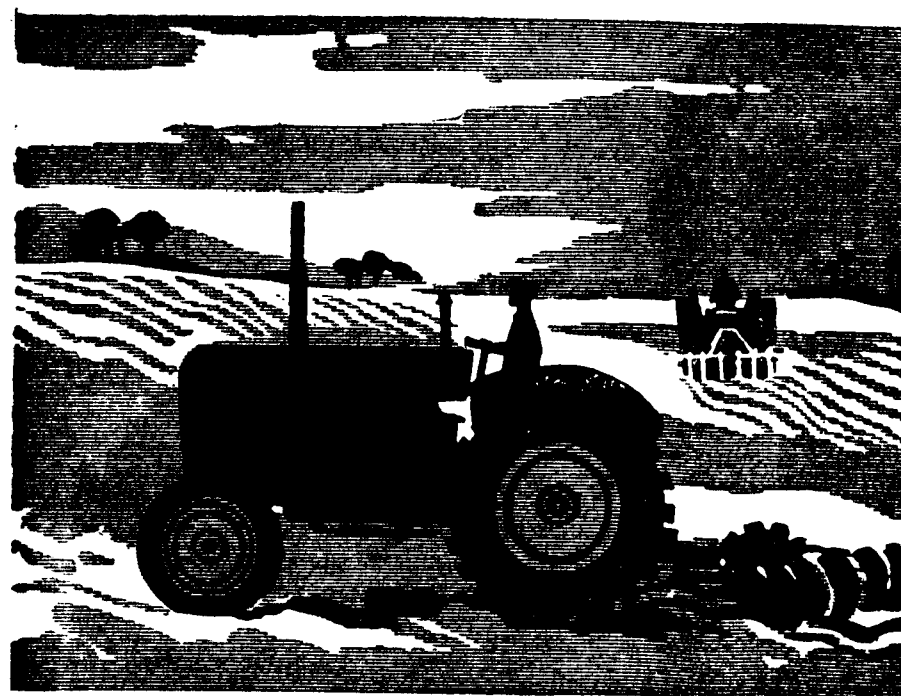


BROOKE BOND INDIA LIMITED
9, Shakespeare Sarani, Calcutta-16.

ABMEL

makers of

Exide



India's leading manufacturers of storage batteries

From aircraft to diesel starting, automotive to railway, industrial to telecommunications, portable radio to traction—there is an ABMEL battery to do the job.

ABMEL manufactures renowned brands such as EXIDE, EXIDE-IRONCLAD, CHLORIDE, DAGENITE and INDEX. Each an outstanding battery in its class.

ABMEL IS INDIAN. Over 18,000 shareholders are Indian Nationals. All standard components are manufactured indigenously and these meet the highest international standards.

Advanced techniques in manufacture, latest machinery and equipment, modern quality control and the combined technical know-how of an international organisation make ABMEL the leading manufacturers of storage batteries.

ABMEL

ASSOCIATED BATTERY MAKERS (EASTERN) LIMITED

ENC 45

exports such as jute, tea, textiles, cashew, black pepper, tobacco and leather which it could not have obtained except for free foreign exchange. Progressively and in pursuance of its planned improvement in the standard of living of the people, the USSR also started buying a lot of our consumer goods.

However, the trade between India and the USSR is not merely a matter of exchange of commodities. There are a number of agreements at the economic level as a result of which the relationship over a period of years has grown to vast dimensions. Special mention must be made of the vast economic and technical co-operation arrangements that exist between us and the Soviet Union and the resulting long-term credit arrangements. Up to 1965-66 the total credit obtained by us from the USSR amounted to Rs 484 crores exclusive of occasional grants-in-aid. More than half of this credit has been utilised, the balance remaining to be utilised during the period of the fourth Plan. These credit arrangements incorporate a variety of developmental projects and involve phased supply of machinery and raw materials. The repayment arrangements by themselves have established an assured off-take for our exports. It will thus be seen that trade under balanced bilateralism has moved forward over the years in a pre-determined and planned way; it covers both traditional and non-traditional exports.

I would now like to stress the attainment of great diversification in our trade with the USSR. Our imports have largely been of capital goods and heavy machinery, fertilisers, mineral oils, diesel oils, fuel oils, kerosene, alkalies, non-ferrous metals, asbestos, newsprint, organic chemicals, and other equipment and basic raw materials which are vitally needed for the successful completion of our five-year Plans. In the process of exploration for such imports, it has been possible for us to export a wide range of new commodities to the USSR. Because of the scheme of balanced bilateralism, our essential imports are being continuously paid for by the export of goods of a matching value rather than in terms of free foreign exchange. This scheme incorporates within itself the mechanism of repayment on the basis of 'reciprocity' at a time when this country, like other developing countries, is starved of foreign exchange resources.

Main Advantage

Thus as against the convertible currency trade with the rest of the world, the main advantage in this bilateral balanced trade pattern is that (i) we import only those items which are necessary for our economy and at comparable prices for matching quality; we buy nothing from the rupee countries which we do not import from other sources; (ii) we borrow technology, technical know-how and capital goods on long-term credits repayable in kind, i.e., through export of goods leaving no residue or burden of heavy foreign debts; (iii) it promotes export of our new industrial products which otherwise face stiff competition in the industrialised world; for instance our sales of footwear, machine tools, refrigerators, fruit juices, thermos flasks, surgical gloves, knitwear and other engineering goods and chemicals to the east European countries have eventually enabled us to sell them in the western Markets also. Thus the rupee trade has acted as a stepping stone in training our manufacturers and exporters and imparting expertise and confidence to them so as to sell new and difficult-to-sell items in the fiercely competitive and sophisticated world markets; (iv) the unit price that we fetch for our exports is levelled upwards by the bulk buying of these centrally-planned economies with full freedom to us to pay international prices for goods which we buy from these countries for our basic requirements and (v) to lift the seasonal surpluses of our farm and plantation products which would have otherwise depressed our production.

The bulk of our exports to the Soviet Union consists of our traditional exports such as jute goods, tea, coffee, tobacco, spices, mica, textiles, cashew, shoes, leather and skins. Since 1953 the exports of our inelastic traditional commodities to the free foreign exchange area have been continuously subjected

to "trade adversity". The emergence of the east European countries, particularly of the USSR, has not only helped the marketing of all the surplus we can have of these commodities but also contributed to an increase in their unit prices. I would like to give one important example. Between the years 1958 and 1965, the sales of tea to the USSR increased from Rs 8.2 crores to Rs 17.3 crores, while during the same period our total export of this commodity went down from Rs 136 crores to Rs 115 crores. Our increase in tea sales to the USSR may to some extent be attributed to the withdrawal of China as a source of supply but there is no doubt that our long-term trade and economic co-operation agreements with the USSR had been able to hold back our competitors from crashing into the vacuum created by China's withdrawal.

The price obtained from the USSR in 1960-61 for our tea was Rs 7.07 per kilogram as compared to Rs 6.16 per kilogram for the rest of the world. Some studies made by the Indian Institute of Foreign Trade on the question of unit prices of our exports to the USSR show the advantages that have been available to us in respect of some other commodities as well. In 1964-65, the unit value index numbers in respect of black pepper, tobacco, jute bags and castor oil were higher in the case of our exports to the USSR than for the rest of the world. This is all because of the popularity of our consumer goods in the USSR which has a vast market supported by a population of 230 million. The continuously growing trade relationship with India is reflected not only in the overall quantum of imports but also in consumers' preference for our goods.

The Soviet consumers are now being allowed to assert their preference for consumer goods. Consumer preference has still to come into full play. In the wake of the recent economic reforms in the USSR, this is bound to have a great effect on USSR's purchases from this country.

Significant Development

A significant development in Indo-Soviet trade is the recent sale of Bhilai steel products to the USSR. Under a contract recently executed, the USSR has already purchased more than 50,000 tonnes of steel and, if we can keep up to our schedule of shipments, there is a possibility of exporting 200,000 tonnes of steel worth about Rs 12 crores a year. This may slowly increase further. This can serve as an example for our aided projects to obtain the best international collaboration. As a developing country, we look forward to similar fulfilment for not only other Soviet-aided and east European-aided projects but also from west Europe, the USA, Japan and other industrialised countries.

I have already mentioned the credit and repayment arrangements which have made possible the diverse industrial collaboration arrangements that have now come to form the basic structure of Indo-Russian trade and economic relationship. All over the country we find symbols of Indo-Soviet joint ventures. These include Bhilai, the heavy machine building plant at Ranchi, the Heavy Electricals at Hardwar and Ramchandrapuram, the giant antibiotics complex in Rishikesh and also the oil exploration activities from Rudra Sagar to Cambay, not to speak of the refineries at Barauni and Koyali. The trade relationship evidenced by Indo-Soviet collaborations has now spilled over into a number of non-commercial projects financed by grants-in-aid, such as the Indian Institute of Technology in Bombay and the experimental agricultural farm at Suratgarh. Projects either financed or otherwise aided by the Soviet Union in India today are too numerous to be recounted here. I had the honour and the privilege to be actively associated with most of the Indo-Soviet projects and also with similar projects which came into being in collaboration with other industrialised countries. In my long experience, the Soviet collaborations have been among the smoothest and the speediest.

The devaluation of the rupee on June 6, 1966, seemed to paralyse the rupee trade. A series of negotiations with the

USSR and the other countries and a broad recognition by the governments concerned that the rupee which has been used as a medium of foreign exchange in transactions with these countries should not be treated differently from any other convertible medium of exchange, resulted in agreements to escalate the values of existing but unfulfilled contracts by 47.5 per cent to 57.5 per cent. This decision restored the trade flow and maintained the pre-devaluation unit prices for practically all the traditional items. However, in recent months there has unfortunately been a setback in unit prices but this is more due to the problems arising out of the pressure from the world buyers.

Let us now look at this trade relationship from the point of view of the USSR. In 1956, our contribution to Soviet imports and exports amounted to 0.5 per cent and 1.1 per cent respectively. This gradually rose to 1.5 per cent and 3.0 per cent in 1963. Our country is now a very important trading partner of the USSR from amongst the developing countries and the rate of growth of our mutual trade is very significant. The overall trade turn-over of the USSR is increasing rapidly as a result of the liberalisation introduced in the Soviet economy in recent years. According to a forecast, the trade possibilities of the USSR are projected at US \$25.2 billion for 1970 which will go further up to US \$44.8 billion by 1980. Thus the annual increase in foreign trade is expected to be maintained consistently at 6 per cent. In this background it should be possible for us to participate in this trade expansion in a big way. To illustrate my point, I would again refer to tea for which I think there are great possibilities. According to the Soviet forecast, there is likely to be a rise in the coming decade in their per capita consumption of tea to 2.0 kgs as against 0.21 kg per year at pre-

sent. Tea production in the Soviet Union is expected to increase to a large extent but there is no possibility of its reaching anywhere near the projected consumption level. This is a situation of which we could certainly take advantage. The fact that the USSR consumers have acquired a taste for the quality brands in which we specialise should be particularly helpful to us. I think it is possible to bring about a similar expansion in the exports of jute goods, cotton and woollen fabrics, spices, cashew, light engineering products, steel and steel products, shoes, chrome and tanned leather, skins and furniture.

There are many critics of our bilateral trade with the USSR and the east European countries. It is true that all concepts do not always fit into the pattern of bilateralism and that this pattern like all other things is sometimes liable to be misused or mishandled by individual exporters or importers or trade organisations. But even here the oft-reported switch trade or diversion is totally absent so far as Indo-USSR trade and Indo-Czech trade are concerned. On the whole the maintenance of this trade has been a shared problem and, having had the experience of the past decade, it is unlikely that either we or the USSR or the east European countries would like to lose the advantages that have been gradually acquired. The impact of liberalisation on both sides would make for greater consciousness in both the partners of the need for quoting competitive prices and to trade on the basis of equality and mutual benefit. With mutual co-operation and, if necessary even unilaterally, we have to take every possible step to prevent diversion and totally eliminate any possibility of a switch trade, however big or small.

(To be concluded)

Siemens Complete 100 Years in India

A Correspondent

YESTERDAY THE House of Siemens celebrated the centenary of its association with India. It was in 1867 when the seeds of this association were sown by Werner von Siemens by undertaking to lay a direct overland telegraph line between London and Calcutta, across two continents—Europe and Asia. The laying of this Indo-European line, which was commissioned in 1870, was indeed a big challenge for Werner von Siemens, who personally supervised the project, as well as for the concern he had floated in Berlin about two decades earlier in partnership with Johann Georg Halske and Johann George Siemens under the name "Siemens and Halske". The project, a high point in the history of telecommunications in the 19th century, posed numerous problems. The route of the line, passing through trackless mountains, was exposed to extremes of heat and cold. The superstitions of the inhabitants on the way had to be encountered. It was Werner von Siemens' devotion to the cause of telegraphy and the business acumen of Siemens and Halske that brought this largest single transaction of the day (involving a capital outlay of £400,000 and a recurring cost of £34,000 a year) to fruitful completion. The importance of this project for a German can be gauged from the fact that he won it at a time when his country could hardly be termed industrialised; England at that time was industrially far in the lead. Werner von Siemens' achievement was appropriately hailed as epoch-making for only a decade earlier the attempts at linking India and Europe by a submarine cable through the Red Sea had proved unsuccessful.

Although the Indo-European telegraph line is now firmly a part of history (only some sections of it in Iran being still in use), the association of the House of Siemens with India has grown manifold during the last 100 years. Up to 1955 this association primarily took the form of supply of various types of equipment, particularly for power generation, electrification, and telecommunications. Since then, however, in line with their age-old tradition of gradually taking up manufacture in the importing countries, Siemens have started producing several of their products in India. Their manufacturing program-

me in India was started in a modest way in 1955 when a small workshop under an arch of Mahalaxmi Bridge in Bombay was used for assembly of switchboards from imported components. Actual production was taken up in 1957 with the formation of Siemens Engineering and Manufacturing Company of India Ltd. It rose rapidly; last year Siemens produced in India goods worth Rs 17 crores.

Siemens today have four factories in India—one at Andheri, two at Worli and one at Kalwa—all in or around Bombay. They manufacture products ranging from electric motors, switchboards and switchgears to railway signalling and electro-medical equipment. At the Andheri works are produced components of switchgears and controlgears, including LT control switches, switchfuse combinations, LT airbreak contactors, bi-metal relays, limit switches, motor starters, LT circuit breakers, HRC fuses and 11 KV switches. At Kalwa, Siemens produce motors from 11 KW to 132 KW and special motors such as pump motors, crane and hoist motors, sugar centrifuge motors, ring frame motors, multi-speed motors, etc., and transformers for specific applications—all according to the latest Indian and international standards. Recently, Siemens have started manufacturing electro-magnetic clutches also at Kalwa.

At one of the Worli works are manufactured various types of switchboards up to 22 KV 4000 Amps, relay and control panels for power stations, flow diagram boards for chemical and other industries, control desks for all purposes, overhead busbar systems for power distribution in big factories, mosaic system boards for load despatch centres and other similar uses. At the other factory here, Siemens manufacture electro-medical equipment. This manufacturing programme, started in a modest way in 1962 with the production of X-ray equipment for medical diagnosis (medium-sized examination table equipment with 50 mA, single tank one pulse generator), now covers production of the most versatile motor driven examination tables equipped with high powered X-ray generators of 500 mA capacity. The manufacture of physio-medical equipment, including surgical

diathermy—short wave diathermy apparatus—has also been taken up. The manufacture of operation theatre lamps is expected to start soon. Siemens are also contemplating to manufacture dental units and dental chairs. Ultimately, not only the range of electro-medical equipment produced will be extended, but the development of indigenously designed units and components will also be undertaken. A modern test laboratory and a tool room have been set up for this purpose. The product pattern at the Kalwa factory is expected to be expanded in the near future to cover manufacture of induction motors and transformers of ratings higher than at present, as also of alternators.

Siemens have not only started manufacturing on their own in this country, but they are also actively collaborating with a number of Indian companies. Bharat Bijlee joined hands with Siemens in 1958. It manufactures, under a licence from Siemens, motors up to 11 KW and transformers up to 7.5 MVA and has recently commissioned a new factory at Kalwa where it proposes to start producing power transformers up to 7.5 MVA 66 KV. The Cable Corporation of India (CCI), another company with which Siemens are collaborating, is presently manufacturing Tropodur (PVC) wires up to 1.1 KV, Tropodur cables up to 6.6 KV, Tropodur screened signalling and mining cables up to 3.3 KV and paper insulated power cables for voltages up to and including 22 KV. Special orders for 33 KV cables are also undertaken by the CCI. It expects to take up regular production of 11 KV cables in the near future.

With accent on agricultural and rural development, Siemens and their Indian collaborators are making special efforts to cater to the requirements of agriculturists. Siemens have extended their sales network to remote districts. Their design departments are looking closely at products from the viewpoint of rural operating conditions. Special motors which can withstand wide voltage fluctuations have been introduced. Switchgears with sturdy enclosures, which allow exposure to weather conditions in open fields, are being manufactured.

Indian Personnel

With a view to training Indians for their manufacturing and servicing programmes, Siemens have set up a training centre at Andheri. A large number of Indians have also been trained in the Siemens' works in West Germany. The result is that all but a handful of Siemens' 3,855 staff in India are Indians.

The products of Siemens' factories in India as also those of the Siemens collaborated units compare favourably with the products of the German factories. They are internationally competitive. Last year Siemens exported from India their products worth nearly Rs 40 lakhs.

Siemens have assisted complete electrification of a number of Indian factories, cutting across a wide spectrum: sugar, textiles, mining, fertilizers, cement, etc. In many cases, such as electrification of textile mills they have pioneered electrical processes. In the field of synthetic and chemical fibres, Siemens have pioneered, designed, and supplied special equipments—frequency conservators, high-speed spinning pot metres, reluctance motors and high frequency clophen transformers and switchboards.

Siemens have also collaborated extensively with the public sector. Besides providing equipment for power generation to such projects as Hirakud, Chambal, Fathri, Durgapur, Khaperkheda, etc., they have been closely associated with the Rourkela steel and Neyveli lignite complexes. At Rourkela, they supplied not only the entire power station but also designed, supplied and erected the primary power distribution system. A star feature of the Rourkela plant is the wide rolling mill which compares favourably with the most modern unit in Europe. Siemens designed and supplied all the electrical equipment for it. Siemens are continuing their collaboration at Rourkela during the expansion of this plant from one million to 1.8 million tonnes. At

the Neyveli Lignite Mining Project, a fully mechanised mining operation is working on what has been estimated as a potential of 200 million tons of lignite. Giant bucket wheel excavators with a bucket capacity of 350 and 700 litres are employed, and the latter have an hourly output of 1840 cubic metres. All electrical equipments for excavators, spreaders, trippers and belt conveyors have been supplied by Siemens.

The association of Siemens has been extensive in the development of our telecommunication and railway services. For the telephone lines from Delhi to Agra, they have supplied coaxial cables and equipment. This carry-on-line technique contract is one of the latest won by Siemens. In 1932, the carrier system was first demonstrated by Siemens in Calcutta. Soon after the first system for single channel carrier circuits between Bombay and Delhi, and Bombay and Ahmedabad were ordered. An order for three channel carrier system between Bombay and Calcutta followed. For the latter, special high gain amplifiers were designed and developed by Siemens factories in Germany. In a country as large and as varied as India, communication over wires and cables alone cannot suffice. In 1959, Siemens entered into collaboration with the Government of India for the manufacture of transmitters and X-ray tubes at Bharat Electronics, Bangalore. Since then, hundreds of these wireless equipments have been installed in different parts of the country to provide instant communication at all times of the year.

Telex Service

In the allied sphere of intercontinental telecommunications, Siemens have worked closely with the Overseas Communication Service of the Government of India to provide fast and reliable links with distant parts of the world. They were the first to introduce automatic error correcting equipment for telegraph circuits in India. This made the present international telex service possible.

In railways, the two-wire mechanised signalling technique was introduced by Siemens and has now been standardised upon and is manufactured within the country to Siemens' international standards. The modern route relay interlocking technique was introduced on the Indian railways at the Churchgate railway station in Bombay in 1958 by Siemens.

Siemens have also been associated with the development of our shipping industry. In 1954, "Jal Vihar", the first diesel ship built at Visakhapatnam, was fully electrified by Siemens. In 1958, Siemens supplied the first indigenously fabricated marine DC system switchboards. The first indigenously fabricated AC system marine switchboards were supplied by them in 1960. Also in this year, Siemens supplied the first indigenous marine motors. The first marine service department of the company was opened in Calcutta in 1961. In 1966 Siemens demonstrated first the prototype of the mechanical portion of the winch. In all, over 70 ships plying under the Indian flag are provided with Siemens' electrical equipments, the majority with AC winch motors, a specialty of Siemens.

Siemens currently are increasingly expanding their business abroad. Every third D-mark of their total sales last year was due to foreign business. In fact, this tradition of Siemens dates back to 1863 when they set up a factory for galvanised rubber in England. In 1879 they established a cable factory in Russia. Today they have manufacturing establishments the world over. This eminent position they have achieved through extensive research the fruits of which are made available to all their own enterprises and collaborators abroad; nearly 7.5 per cent of the Siemens' income goes into research.

The collaboration of Siemens with India can be expected to grow further as many a German entrepreneur is looking out for new bases for production where labour costs are not so high as in West Germany.

FROM THE CAPITAL'S CUPBOARD

Negligible Deficit Financing?

MR MORARJI Desai has been true to his word. He has kept deficit financing under strict check. The total deficit financing, i.e., the borrowings of the centre and the states from the Reserve Bank of India (RBI) during the five-month period ended August was only Rs 9 crores against Rs 281 crores during the corresponding period last year. The centre's deficit amounted to Rs 54 crores, while the states had a surplus of Rs 45 crores with the RBI. While the states have been striving to keep their overdrafts with the RBI within the prescribed limits, their surplus is largely accounted for by the special assistance given to them by the centre from time to time to ease their ways and means position. While the situation in regard to deficit financing has so far been satisfactory, it would be premature to conjecture if it could be kept under control during the remaining part of the financial year. The revenue receipts are much below expectations because of recession which has affected production as well as imports. Consequently, aid utilisation has also been at a lower pace than anticipated. In the wake of a good crop, larger investment expenditure may also have to be made to stimulate growth. All these factors may cause a sizeable deficit to emerge in the later part of the year.

RELIEF IN DEBT SERVICING

The World Bank has shown temporary accommodation to India in order to lessen its debt-servicing burden. It has permitted India to postpone repayment of a sum of \$50 million due to it in June this year till May next. This interim debt relief afforded by the World Bank is an unusual step taken by it as its constitution does not normally permit deferment of debts.

Meanwhile, India has so far received only \$287 million out of the \$900-million non-project credit promised by the Aid India Consortium for the current year. The break-up is: the UK \$34 million, Japan \$52 million, West Germany \$63 million, Canada \$38 million, the World Bank \$50 million (by way of interim debt relief) and the USA \$50 million. In addition, India received from the USA \$132 million, being the balance of the non-project aid pledged by it last year.

OUTLOOK FOR FERTILISERS

The Petroleum and Chemical Ministry has just completed an exercise which seeks to show that the prospects of increasing indigenous fertiliser production are bright. For the purpose of the exercise, four lists of projects were drawn up: (a) firm, (b) those awaiting final clearance, (c) those in which prospects are not clear, and (d) projects under consideration, which are likely to contribute to production by 1972.

According to the estimates worked out by the ministry, a firm capacity of 2.164 million tonnes should be established through the projects in the first list. It expects a production of 1.569 million tonnes from the second list by 1970-71 and 2,004 million tonnes by 1972-73. The Goa project has been included in the second list, but the ministry is confident, on the basis of the latest schedule received from the sponsors of the scheme, that it will go into production in the latter half of 1970-71.

In view of the uncertainties relating to Trombay expansion, Mangalore and Haldia projects, the ministry has placed them in the third category, i.e., projects about which the prospects are not clear. However, it believes that all the pending matters in respect of these projects will be settled by the end of this year and that they will be able to contribute to production by 1970-71.

The Trombay expansion scheme, which provides for an addition of 229,000 tonnes of nitrogen to the capacity of the plant, has been delayed because the US Agency for International Development, which has agreed to finance the project, has suggested some changes in the scope of the project. As regards Haldia, which is to be set up by the Phillips Petroleum Com-

pany of the USA, delays have occurred because of differences over the quantum of technical know-how fee and the agency for the import of raw materials.

The Kandla project, which is to be established in the co-operative sector, and the Modi Rohm and Hass project to be set up at Ghaziabad have also been included in the third category. But in the case of the former, clearance has now been given and a letter of intent is to be issued soon. A letter of intent has already been issued to the latter, but certain matters have to be settled before the green signal for this project can be given.

On the basis of this exercise, the ministry concludes: 'In sum, it may be seen that against a likely installed capacity of 3,310 million tonnes of nitrogen by 1971-72, (which includes projects under various stages of consideration), a production of 1.715 million tonnes in 1970-71 and 2,998 million tonnes in 1972-73 may be expected; of this 1,569 million tonnes in 1970-71 can be considered firm . . .'

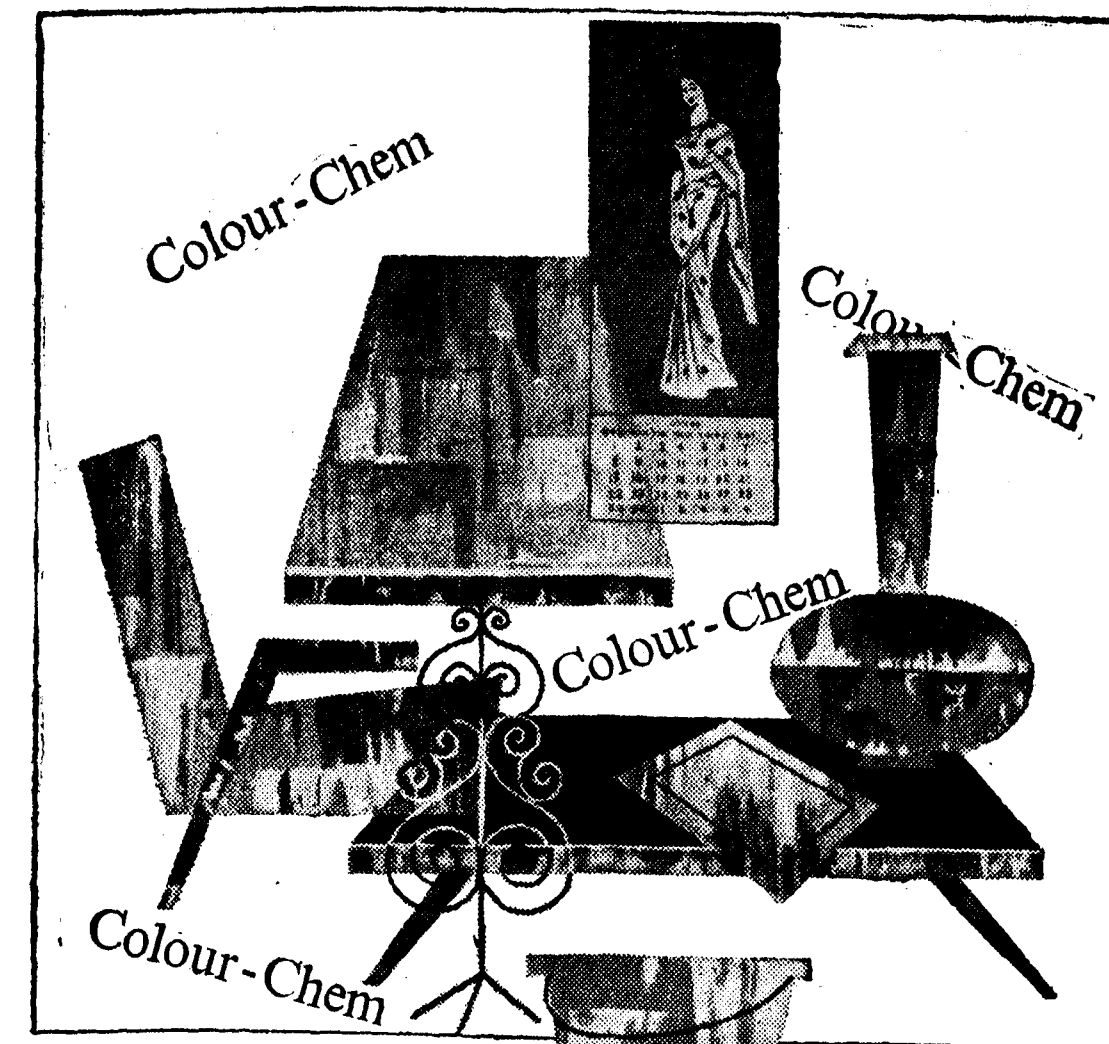
IF's AND BUT's OF AID

While Canada and the UK have given the lead in affording some accommodation to India in regard to its debt servicing burden, no significant progress is expected to be made on this matter at the Aid India Consortium meeting in Paris this month. For one thing, the major aid givers still adhere to the stand that they will be willing to soften the terms of their credits only if others are prepared to do so. Some of them are reported to have suggested that India should secure aid from the east European countries on easier terms than at present as in their opinion the short period of maturity of their loans and the lack of grace period tend to add to India's debt-servicing burden. For another, the World Bank President, who had been exerting pressure on the consortium members to provide relief to India either by rescheduling or refinancing of debts, has of late been preoccupied with the replenishment of the funds of the IDA—the soft loan affiliate of the World Bank—so that development activities in the poorer countries do not come to a halt. Even here he is faced with an uphill task and therefore it seems unlikely that his efforts to secure a measure of relief for India will bring about tangible results at the Paris meeting.

Eastern Economist 20 Years Ago

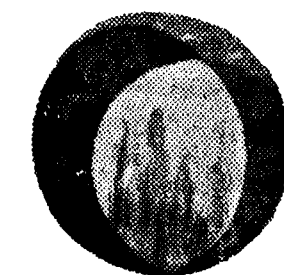
NOVEMBER 14, 1947

One of the most outstanding and easily the most intricate among the many unsolved economic questions in India, as in other countries, is that of price level. Recent international plans have more or less avoided prescribing any workable programmes to bring down the general level of prices. An original American correspondent has recently compared the rising price level to sin: everybody is against it, but nobody seems to know exactly what to do about it. Our own ideas regarding the ultimate level of post-war prices in this country and the manner in which it is to be attained, have certainly been nebulous. In February, 1944, a local Pay Committee in Madras, which had to consider the probable course of the price level, was daring enough to predict that post-war prices would settle down somewhere between 60 and 80 per cent above pre-war levels. As a target for governments to follow, this figure has been more or less uncritically accepted. The Madras Cabinet Committee accepted it as a reasonable level, somewhat less than a year back.



Colour-Chem COLOURS everywhere!

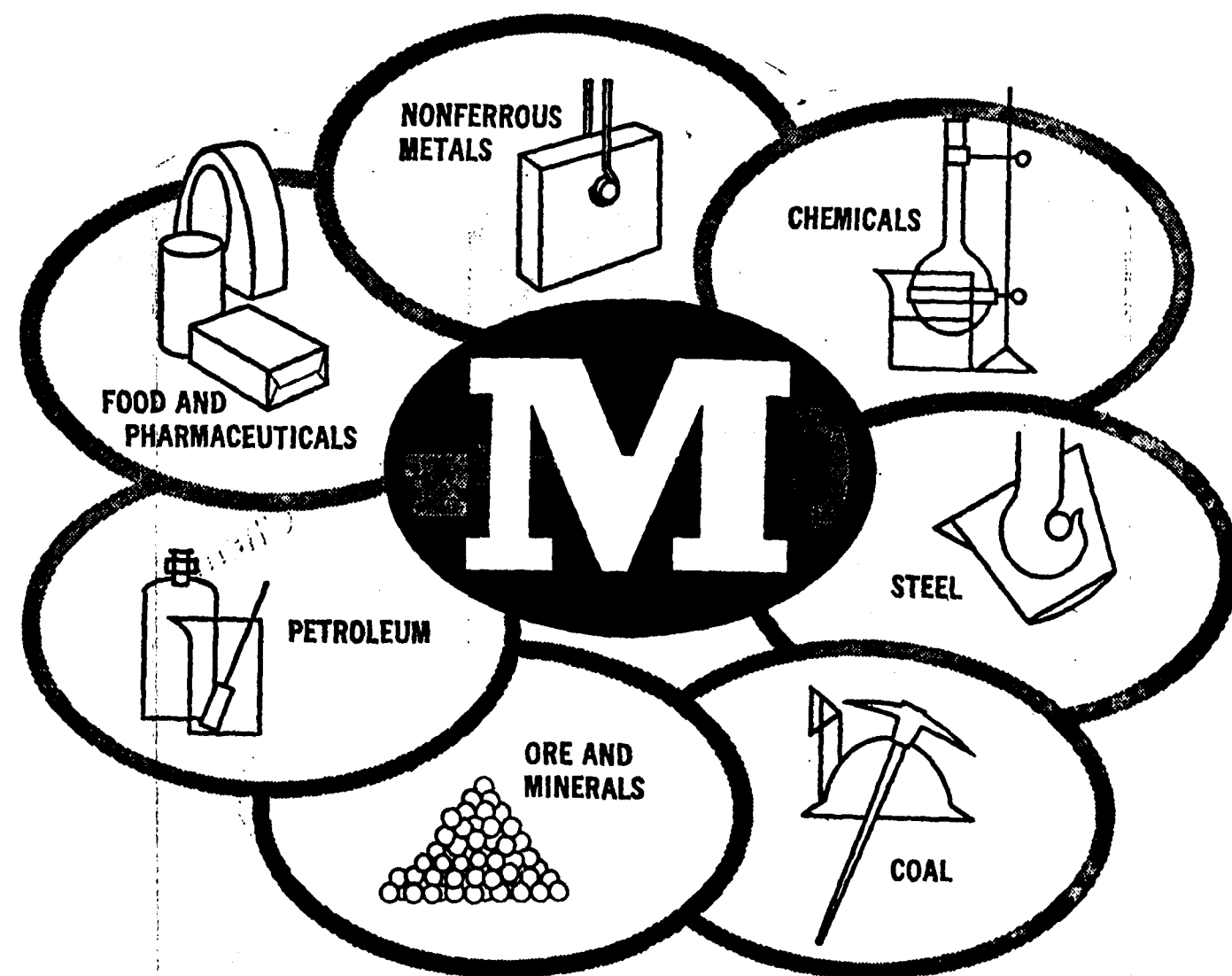
When you see the thrilling world of man-made colours around you—spectacular prints on your fabrics, colourful inks in your magazines, pleasing paints in the interior of your home, fascinating tapestry and the attractive furnishings of your drawing room, plastic balls in the hands of your children—remember that COLOUR-CHEM, India's leading makers of Pigment Colours, is very much a part of your daily life.



Colour Chem

COLOUR-CHEM LIMITED
221, Dadabhai Naoroji Road,
Fort, Bombay-1

In direct participation with:
FARBENFABRIKEN BAYER AG.,
Leverkusen, W. Germany
FARBWERKE HOECHST AG.,
Frankfurt, W. Germany



McKee can apply OVERLAPPING TECHNOLOGIES to India's process industries

Because we serve a broad range of major process industries, we can frequently apply new technical ideas developed for one to advantage in others. McKee's overlapping knowledge in seven technologies can pay off for your company in advanced plant design, built-in efficiency, and operating economy.

McKee engineering experience has length as well as breadth, spanning more than six decades of world-wide activities including 37 completed contracts in India.

We will be glad to supply detailed information on our complete services at your request.



McKEE

ARTHUR G. McKEE & COMPANY
2300 Chester Avenue, Cleveland, Ohio 44101

Petroleum and Chemicals Div., Cleveland and Rome, Italy (CTIP). Iron & Steel Div., Cleveland. Nonferrous Metals and Minerals (WKE) Div., San Francisco. Food & Pharmaceutical Div., Chicago. Offices in Argentina, Australia, Brazil, Canada, Chile, France, Mexico and Spain.

Represented in India by **DR. B. S. GILANI** 29 Jor Bagh, New Delhi 3

WINDOW ON THE WORLD

I : Britain and Europe

II : What Is "Factoring"?

JOSSLEYN HENNESSY

HOW THE APPROACHES DIFFER

LONDON:

READERS of "Eastern Economist" will know that I have repeatedly deplored the emphasis that British commentators, ministers, and other government spokesmen have hitherto laid on the economic advantages that Britain could gain by entering the Common Market. Personally, I believe that, on balance, the economic advantages are real and more than outweigh the obvious disadvantages. The point is, however, that although membership of the EEC would facilitate the solution of Britain's economic problems, it will not, of itself, solve any of them.

The overwhelming argument for British membership of the EEC is political.

We are no longer a world power—any more than any other single European country is. By ourselves, we are an island off the costs of Europe. Outside the EEC we shall have no say in European policy-making, but merely have to shape our policies (political and economic) as reactions to EEC policies. (It is just as true that if the EEC fails to attain its ultimate aim of political integration, the political and economic policies of the individual European states will merely be reactions to the policies of the USA, the USSR, and eventually possibly China). On the other hand, politically and economically, Britain is part of Europe, and if we believe in the future of Europe, we can, by joining the EEC, hope to become an influential partner in an eventually integrated community and, by doing so, add to Europe's influence in the world.

At long last, Britain now stands publicly and unequivocally committed to Europe. Let us run over the facts:

Britain's second application to join the European Economic Community has been lodged in Brussels.

A Clear Distinction

Looking back over the past 12 months a clear distinction has emerged in both method and objectives between the Wilson and Macmillan approaches to the EEC. The difference arises partly from the development of a more favourable public opinion in Britain to our proposed membership. Last time, Mr Macmillan's major task was to persuade his own party to support his policy against a background of an indifferent public and a mostly hostile Labour party.

Since the Conservatives' attempt to join in 1961, the EEC's undoubted economic success, coupled with our own continuing difficulties, have swung informed opinion in favour of our joining the EEC for economic reasons. Most of British industry and commerce is solidly behind our application, and one public opinion poll after another has shown that a consistent majority in all walks of life agrees. The massive support that the Labour government received in Parliament in May, 1967, decisively confirmed this major conversion of all shades of opinion to membership of the community.

But what is really significant in the change of mood is revealed in the kind of arguments now put forward by the government and accepted by Parliament. The possible adverse economic repercussions of membership have been officially admitted in detail: government spokesmen have underplayed

neither the rise in the cost of living nor the possible effects on our balance of payments that may follow from acceptance of the EEC's agricultural policy and levy system, with their necessary adjustments to our own farming industry. Much less needed to be said this time about the likely advantages to our commerce and industry. The long-term benefits for our products and the technological advantages of producing for a tariff-free market of 300 million consumers have become self evident.

The Political Case

Underlying all these arguments, however, has been the recognition by both the government and Parliament that the strongest reasons for seeking entry at this stage of world history are political rather than economic. The overwhelming superiority of the two world powers, the USA and the USSR, and the decline in influence on international affairs of the nation states of western Europe since World War II, are stark realities, which the British government and Parliament have grasped.

The confrontation between the Soviets and the Americans in Cuba and, more recently, the Middle East crisis, have clearly revealed that the peace of the world is now in the hands of the two super-powers, whose decisions are no longer affected by the views of other erstwhile first-class powers such as Britain, France, and West Germany. The war in Vietnam has shown that, in the absence of agreement between the two giants, the United Nations Organisation is powerless.

If Britain is to continue to play a world role she can do so neither alone nor as the junior member in an Anglo-American alliance. The divergent regional interests of Britain's Commonwealth partners have also proved to be stronger than the bonds of sentiment that were said to hold the Commonwealth together. On the other hand, common European interests far transcend differences between the nations of Europe, and the development of a coherent European political entity is indispensable if Europe and Britain are to avoid complete subordination of their international interests to one or other of the super-powers.

General de Gaulle has understood the changed situation in world power and, by a distinctive and unaligned foreign policy, is trying to develop a new and separate international personality for France and for what he calls "European Europe". Although some of his more extreme pronouncements have evoked protests and opposition, there seems to be growing recognition among his Common Market partners that his efforts to establish an independent line need not conflict with the development of a distinctive European identity in international relations. Where his partners differ with the General, and where the British must clearly oppose some of his views, is on the kind of European community that we wish to build.

The basic aim of the Treaty of Rome is to end for all time the divisions in Europe which have led to two world wars. The main cause of these two wars was the emergence in the last hundred years, first, of powerful nation states, and then of intense nationalism. The hope of those who drafted the Treaty of Rome was to find a way to replace the conflicts between nation states by a European confederation created by several carefully worked out steps: by forming a customs union, by developing common institutions to co-ordinate economic activities, by harmonising fiscal and social legislation and practices, by freedom of establishment across national boundaries

for both corporations and individuals and by creating a representative assembly, leading ultimately to a democratically elected European authority.

Britain, by accepting the Treaty of Rome in the letter and in the spirit, committed herself to establishing both an economic and, in due course, a political community. The British Prime Minister, Mr Harold Wilson, by his declarations in Parliament and to the Six made unequivocal British adherence to the principles embodied or implied in the Treaty of Rome.

Is This What de Gaulle Wants?

General de Gaulle's continuing championship of the nation state conflicts with this aim and seeks to perpetuate the very divisions which the Treaty of Rome seeks to end.

General de Gaulle's five partners are, at the time of writing, understandably reluctant to challenge him to the point of causing an internal crisis in the EEC, which could end in its disintegration. But if the General persists, and if no way out of the deadlock can be found, the result could paralyse the EEC by impeding its political evolution.

I believe that, on balance, the UK's economic problems would be easier to solve if we form part of the EEC, but whatever happens, solve them we must and shall. On the other hand, the UK's exclusion would be a political disaster for Europe.

The immediate reaction of British public opinion may well be one of exasperation with France and hostility to Europe. In the longer term, the UK and the EEC will be politically weaker. The accession of the UK, followed by other members of the EFTA, would open the door to the gradual integration of Europe with a corresponding build-up of its world influence as a balancing factor in the potentially perilous dialogue between the USA and the USSR. If the integration of Europe had been an accomplished fact, it is arguable that a solution might long since have been found for the war in Vietnam and that the Middle East would be free of the Israeli-Arab powder-keg.

II: What Is Factoring?

Around 1960 a new type of service, of particular interest to small and medium sized companies with, say, a minimum turnover of £75,000, was introduced into the UK from the USA, where it has been widely developed over the years. It proved so valuable that it spread swiftly first to West Germany, then to France, Belgium, the Netherlands and Switzerland. I outline the mechanics of factoring here because it seems to me of special interest to India, a country pullulating with medium-sized businesses inadequately supplied with capital.

In these days of periodical credit squeezes, firms not only find bank overdrafts more expensive and sometimes hard to get, but their customers tend to be slower with their payments. Firms frequently face the unpleasant necessity of deciding whether to struggle along with extended credit to a customer or to cease supplies and so lose him.

On the other hand, an expanding company needs to build up more and more liquid funds to meet its obligations to customers and to its own suppliers, and expansion or prolonged credit can create difficulties unless goodwill can be retained by raising adequate funds from other sources. In other words, there is not only an international "liquidity problem" between nations, but tens of thousands of local "liquidity problems" affecting small, medium, and large companies alike.

Proprietors and senior executives, who should be devoting their time and energy to their real task of supervising, bustling after increased sales, finding new products and outlets, and

long-term policy and planning, find themselves compelled instead to spend much precious time on sales administration and collecting debts.

This is where factoring comes in. Briefly, factoring is a contract between a supplier (the selling firm) and a specialist finance house (the factor) by which the supplier sells his book debts to the factor. How much the factor pays the seller on receipt of the debt varies, and is a matter for negotiation, but in illustration I cite the practice of a British factor company, Mercantile Credit (Factors) Ltd (P.O. Box 88, Great Queen Street, London W.C.2.). Immediately that a legal debt is raised the completed invoice is sent to the factor, who remits by return of post to the seller the pre-arranged purchase price which varies between 75 and 90 per cent of the invoice value. The balance is remitted when the customer pays. If, for example, a seller assigns to the factor a batch of invoices totalling £1,000, the factor returns a cheque of £800 (if 80 per cent is the pre-arranged rate) less the factoring charge, and the remaining £200 as customers pay the factor. If the next batch of invoices again totals £1,000 and in the meantime £500 has been received from the seller's customers, he would receive a cheque for £900, i.e., £800 being 80 per cent of £1,000 plus £100 being 20 per cent of the cash received in the meantime. At the same time the original invoice is sent to the seller's customer. Thereafter such information is fed back to the seller as would be available if the factor were the seller's own sales accounting department. If, on occasion, particularly in seasonal trades, the seller is not in need of liquid funds, he can tell the factor that he does not need advance payment and the factor then makes no finance charge.

Prompt Payment

It is obvious that when a seller is no longer financing his debtors, he has money immediately available to buy in the best markets, at the right prices, and at the right time, so that he has no difficulty in simultaneously meeting his obligations to his suppliers and customers. Prompt payments to suppliers speed deliveries of items ordered and boost the firm's reputation.

The cost to the seller varies according to the individual circumstances of each firm. The factoring charge runs from 0.75 to 2.5 per cent of turnover, plus a finance charge (normally two per cent over Bank rate in the UK) on a day-to-day basis, i.e., similar to bank overdraft, to cover the advance payments from which the seller benefits.

In calculating the factoring charge the factor takes into account the size of the seller's turnover, the quality of his products and customers, the geographical spread of the customers, the number and average total of the seller's invoices.

That companies find that the cost of these services is well worth while and that it is more than offset by their expansion and higher profits is suggested by the figures available from the USA: in 1940 factors handled a turnover of \$790 million a year; by 1965 this had risen spectacularly to no less than \$8,000 million.

At first sight, it may seem that a factor is merely a banker who specialises in short-term credits, but he is much more than that, because in addition to advancing money, he covers insurance, legal services, accountancy, and some factors also cover export markets.

Firms which have found it useful to employ factors include manufacturers and commercial wholesalers, dealing either with home or overseas markets. Factoring is particularly useful to manufacturers selling goods to the trade with innumerable small and widely dispersed customers on short-term credits of 30, 60, 90 days, or even longer if exports to distant

(Continued on page 863)

(Continued from page 862)

countries are concerned. Services may be covered as well as goods: I myself stumbled across factoring, which I had not previously encountered, when I engaged a firm to clean my office. I found myself paying my bills not to the cleaning company but to Mercantile Credit (Factors) Ltd, a subsidiary of the mighty Mercantile Group who are associated with Westminster and Martins Banks, and had the curiosity to ask them what this was all about.

The contract signed between seller and factor grants the factor the right to handle exclusively all his credit sales arising in an agreed period. This exclusivity may apply either to all the seller's products or to a limited selection or to exports to certain countries. The contract provides that the seller must not only send his invoices to the factor but must also endorse to the factor any bill of exchange drawn on his customers, and to the factor all legal rights and documents necessary to dispute claims and recover debts. The seller must also inform his customers that payments are due not to him but to the factor.

These provisions are in the interests of seller and factor alike. A factor who undertakes to pay the seller, and so act as insurer, must be able to spread his risks over the widest number of debts in order to cover his losses in the event that the customer fails to pay or goes into liquidation. The exclusivity clause also enables the factor to understand the full needs of the seller and thus to assess more accurately the seller's credit-worthiness and his own risks.

France Concedes Associate Membership to UK

E. B. BROOK

VIENNA:

IT IS a pity that a red herring in the form of the Chalfont alleged indiscretion at Lucerne should have been dragged across the British-Common Market negotiations. It has upset many tempers, led to an altogether unnecessary uncertainty and temporarily fogged the main issues.

There is no point in further concentrating on what is really an unimportant diversion but, at the risk of a near journalistic heresy, it seems appropriate to remark, partly as a result of six years' experience of Market negotiations, that off-the-record press conferences can be extremely dangerous. These "off the record" informal sessions, often held over a hospitable glass, are usually relaxed and chatty. But it is well to realize that there are some who never relax, that the apparently casual, often parenthetic, question may be deliberately intended to provide a striking headline for a "beat" story, that a question is so phrased that even an ambiguous answer or a brush-off can be converted into an assertion. If additional evidence is needed of the potential dangers of "off the record" meetings it is worth remarking that gentlemen from east Europe never give them.

It seems worthwhile to state briefly, from the continental angle, what exactly is the position over Britain's application for membership of the Common Market. Far from having been vetoed at Luxembourg, all that happened was that discussion was postponed till November 20. Also, far from either the British or the French having taken extreme attitudes, both have kept scrupulously within the terms of the Treaty of Rome, on which the Market is founded. Britain has applied under Article 237 of the Treaty. So far procedure has been completely in accordance with this article. The Brussels Commission was instructed to report on the British application and has recommended negotiations. The ministers of the Six have now met and are shortly to meet again to consider the report and have ordered their own permanent delegates to make their recommendations.

The seller, on the other hand, maximises his profits by no longer financing his debtor-ledger and by eliminating his administrative and accounting costs. Not least, the exclusivity clause, by raising the factor's turnover enables him to make a lower charge to the seller.

In most countries, only the biggest firms engage in exporting, because the volume of their business enables them to maintain specialist export departments and yet to keep competitive prices. Most countries have, however, innumerable smaller firms, whose products would be readily saleable in foreign markets, but to most of these firms the intricacies, unknown risks, and unpredictabilities of exporting are baffling, and the costs of handling relatively small quantities often make their prices uncompetitive. This means that virtually every country one cares to name is exporting far below its potential and losing revenues on an incalculable scale. Factors who specialise in foreign markets thus open new vistas to small firms by undertaking not only the same services overseas that they provide in domestic markets but in addition the expertise of handling problems of foreign freight forwarding, bills of lading, customs declarations and "draw-backs" and by covering the risks of non-payment resulting from administrative headaches or political upsets (including war or civil strife), or from the physical impossibility of transferring funds that are the unforeseen consequences of events like the Arab-Israeli war.

I should have thought that properly constituted factoring companies established by experienced personnel could open vast markets overseas for a mass of Indian products that today never leave her shores.

This much is clear: France is reluctant still to see Britain in the Market; the other five members are willing, some even eager, to have Britain in the Market; none, least of all West Germany, will risk paralyzing the Common Market as it exists by opposing France to the extent of defying it on this issue.

The reasons are various. The West Germans need the French as one of their better markets and, politically, in negotiating with east Europe. Having achieved a Paris-Bonn association it will not be Bonn that will loosen it, whatever happens, in the foreseeable future. For the rest of the Market members, the ultimate overriding consideration is their joint vested interest in preserving the Market as an organisation and as an exclusive group. If de Gaulle's attitude and power is negative towards Britain it is extremely positive in regard to his aims for Europe which, in general, suit the other members also very well.

The Market is also conscious of its enduring capacity to develop internal crises. At present West Germany's 10-year old coal troubles are well on the way to start off such a crisis, with the probability of an all-out protectionist policy for the German energy market with fixed annual production quotas for coal and oil.

The number of these crises that have been overcome in the last 12 or 13 years by sheer persistence in talking until a solution is reached—even with the peculiar aid of "stopping the clock" and continuing to negotiate crabbedly for days after a deadline has passed—is sufficient evidence of the Market's determination to continue, no matter what happens. It is this, rather than de Gaulle, that is the most serious obstacle to the prospects of the admission of a major power with a very different economic system and often very different ideas.

For these reasons the Common Market Council would be very relieved and grateful if Britain could be persuaded to be content with an association rather than membership. This has already been hinted by President de Gaulle—which is, in itself,

in the mood of the present moment, enough to make it unacceptable to many of the British, including the government.

As to French objections over present weakness of the pound sterling, the British balance of payments and the strain on sterling of its role as a reserve currency, much of the validity of this argument has been met by the British Chancellor's expressed willingness to accept any constructive proposals and to negotiate a change. The Clerke report on Britain's invisible earnings has already shown that Britain would not now lose much if sterling ceased to be a reserve currency. Nor should it be forgotten that the French franc is a reserve currency for most of the countries formerly in the French empire, and the French are uncommonly sensitive about reserves held in Paris.

It should not be difficult for either London or Paris to agree to their liquid liabilities to overseas countries being taken over by a consortium to which they could both owe a long-term debt. The Common Market, which has immense financial and bullion reserves, would almost certainly have to participate in this consortium. Such an arrangement could be made simultaneous with British entry into the Market. It is doubtful how far so simple a solution would appeal to the sovereignty-conscious French government.

Prospects, as seen from the continent, are that British negotiations will continue for some time. This would be no anomaly; Austria has been trying to achieve a mere association for six years and is still nowhere near succeeding. The Common Market's Commission has already suggested "concerted action" to achieve a "durable economic equilibrium" and regular meetings to this end appear to be the most probable immediate development.

Long negotiations in 1962-63 and now have created a British Common Market vocabulary all its own; some of its terms are misleading but constantly used. "Getting into Europe" is one of them. Europe consists of a great deal more than the Common Market. Britain is already "in Europe" formally as a member of both NATO and EFTA; hundreds of British firms have subsidiaries on the continent; British investment in Europe—particularly in Holland and Belgium—is heavy. Britain has been in Europe (and Europe in Britain) for a long time and the increasing flow of UK investment to the continent and its acceptance there more than suggests that current difficulties, despite their emphasis on the weakness of sterling, are political and not truly economic at all.

REGIONAL GROUPINGS IN WORLD TRADE

Regional groupings in international trade are fast developing into one of the most serious problems of the 'sixties. Protests against growing American protectionism, an attitude that has developed rapidly and lustily in the USA since the conclusion of the Kennedy Round, overshadow the fact that the Foreign Trade Committee of the US Congress has recently reported that Washington should seriously consider forming a defensive trade bloc of its own if the Common Market takes any further steps "to frustrate the liberalization of world trade."

All these defensively grouping movements on either side of the Atlantic, still the world's greatest trading area, emphasize the need for a competent and impartial international investigation into the implications for world trade of the rapid growth of regional groupings.

Such an investigation is needed as soon as possible since growing political tensions across the Atlantic could be sharply accentuated by more intense US protectionism, by an American-led semi-exclusive trade group or by an enlargement of the Common Market area.

An investigation of this type is in fact, desirable before the UK and other applicants get even a chance to associate with, much less to join, the Common Market. The very strong hints

of speedy retaliation against US protectionist legislation made already by present members of the Market make it doubly important—not least for Britain and its present close trade associates—that this investigation into trade grouping be undertaken speedily. Otherwise, the UK may find itself supporting a group already aligned against the USA in trading terms and, possibly, against other trans-Atlantic powers also, some of which might be within the Commonwealth.

The slightly original fact that the Common Market has, in this matter, the US Administration in agreement with it against the current protectionist mood of the US Congress makes difficulties for the Administration rather than for the Market. Washington has the difficult task of persuading its Congress that it is contrary to America's interest to oppose the Market's policy. Congress has a potent counter-argument; it is indisputably the Market that sets the pace in restricting the free flow of international trade.

The Congress Committee made a telling criticism of Market discrimination against the trade of unassociated countries implicit in preferential arrangements within the Market bloc and, to a lesser extent, within the EFTA also. The answer to this discrimination implied in the Congress committee's report was creation, formal or informal, of an American bloc which could then act similarly towards Europe and, possibly, others, especially towards Japan if necessary, and against relatively cheap labour producers in Asia.

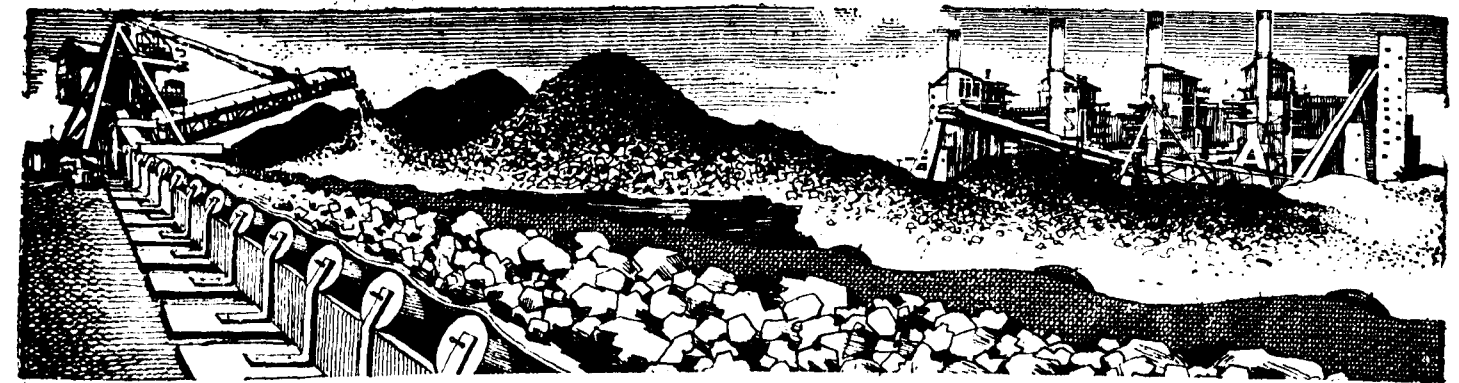
Integrationist Sentiment

The protectionist tendency within the Market and within EFTA is largely the result of their separate movements towards internal integration. The more they have integrated to their internal benefit the more they have, almost automatically, excluded outsiders. Their imports and exports have also grown inwards, even to the extent of, at least temporarily, decreasing outwards. The sentiment behind these moves is probably integrationist rather than protectionist but, to outsiders, it is unquestionably protective in attitude. So long has praise been heaped on the idea of integration that, excellent as this policy is in many aspects, its concomitant detrimental effects have been too little considered if not, in fact, disregarded altogether until too late in the day.

The basic defect of integration, as revealed, is that the integration is being effected on too narrow a basis. Regional integration is strong largely because of geographical considerations. In this sense, both the Market and Comecon are stronger, more logical in a sense, than EFTA because they consist of compact, contiguous areas whereas EFTA is split geographically into three sections.

What is lacking in regional integration is the essential spirit of the Kennedy Round which very early met with the difficulties of special and regional interests. If, as the US Congressional report remarks, tariff reducing agreements "could be extended to the point where a complete elimination of duties over a broad area was achieved on a reciprocal basis" there would be less—possibly no—need for defensive trade associations. Although both the Market and EFTA saw themselves, in cutting internal tariffs, moving towards the same goal as the Kennedy Round they were, by limiting the benefit of their liberalizations to their own associations, cutting across the ultimate purpose of the Round and helping to defeat it.

Since there seems to be no sign of either European association changing its course the most hopeful instrument to prevent a spread of tariff blocs and to achieve a loosening of existing ones would be an authoritative international enquiry and action on its report. Even this could be stultified by an insistence on national interests and denial of supra-national authority. At the moment retaliatory tariff action appears much more probable than any further international moves to ease restrictions on trade.



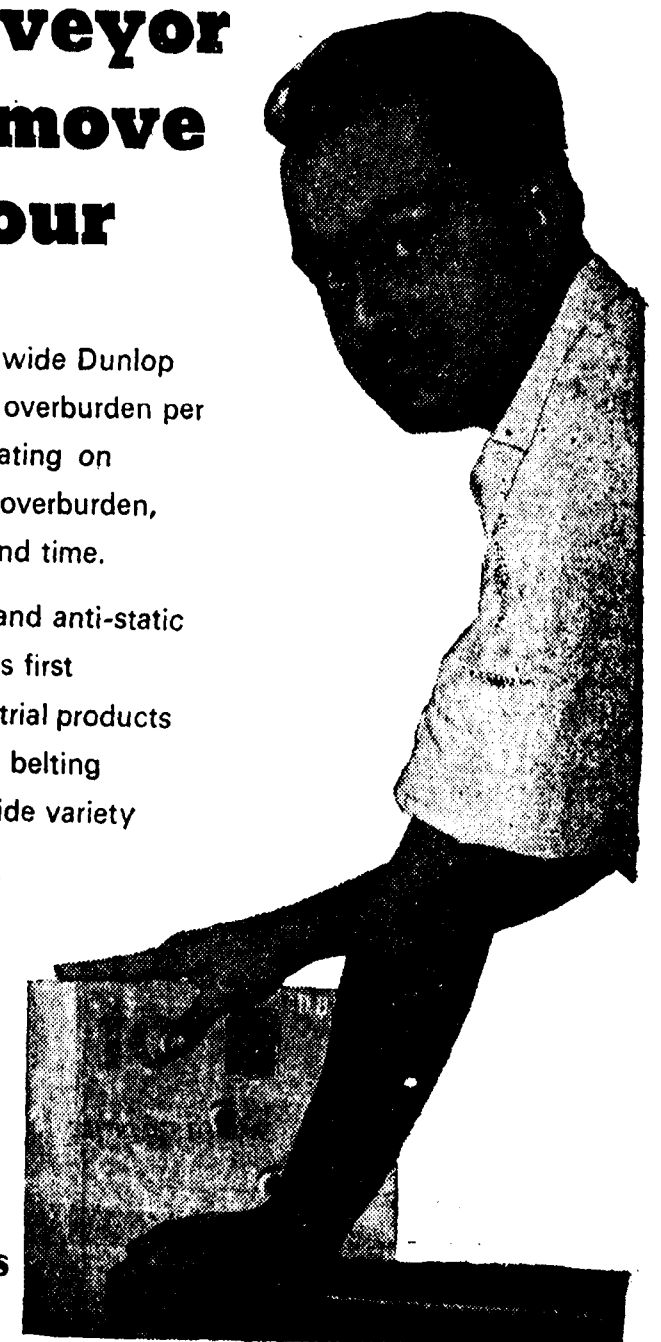
race against time: India's widest conveyor belts, by Dunlop, move 4700 tonnes per hour

At the Neyveli Lignite Project, a complex of 1500 mm wide Dunlop conveyor belts will carry an enormous 4,700 tonnes of overburden per hour at a belt speed of 240 metre per minute. Operating on shiftable conveyors and handling lumpy and abrasive overburden, these belts—widest in India—cut both transport cost and time.

Again, in the special field of mining, PVC fire resistant and anti-static belting which reduces the risk of underground fires, was first manufactured in India by Dunlop. Other important industrial products made by Dunlop India are Vee belts and Transmission belting for power transmission in all types of industry, and a wide variety of industrial hoses and adhesives.

Wherever India's engineers and workers are racing against time, Dunlop products help in some way or other, giving the power and speed to fulfil target on schedule.

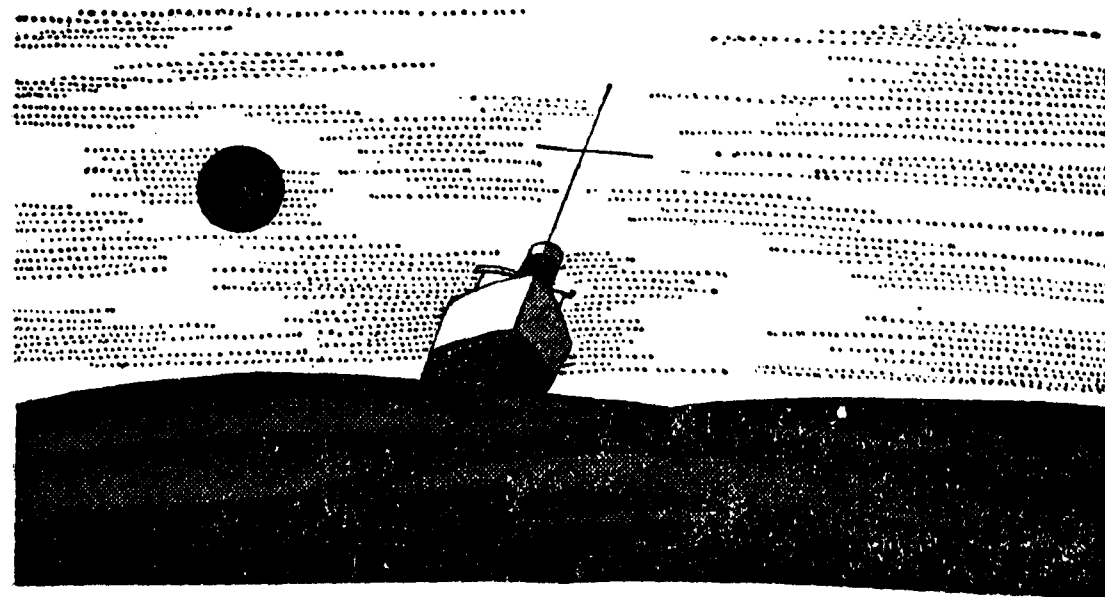
DUNLOP INDIA
—keeping pace with India's Industries



Pre-shipment finance to exporters is now made available at concessional rates of interest; 6% p.a. for exports of Engineering and Metallurgical goods and 8% p.a. for exports of all other products.

For details of the scheme enquire at any of our offices.

HOW MUCH DO YOU SELL ABROAD?



United Bank of India Ltd.

THE BANK
WITH
SERVICE
PLUS.

REGISTERED OFFICE 4, CLIVE GHAT STREET, CALCUTTA-1

naa/UBI

OUR BRANCHES IN DELHI

- 1) 12/4, Asaf Ali Road;
- 2) 48-49, Chandni Chowk;
- 3) 90/8, Connaught Circus;
- 4) Hotel Oberoi Intercontinental, Wellesley Road.

Trade Winds

NATIONAL INCOME : REVISED SERIES

THE CENTRAL Statistical Organisation has issued a brochure containing a revised series of national income statistics. The new series, which replace the estimates of national income published annually by the CSO in the "Estimates of National Income", is more comprehensive in nature and give the estimates of net national product at factor cost, also known as national income, at current and constant (1960-61) prices. The "Brochure on Revised Series of National Product for 1960-61 to 1964-65", besides giving the estimates of net national product at factor cost (i.e. national income), also contains the estimates of gross national product at factor cost as well as at market prices, estimates of gross and net product at factor cost for the public sector, a brief description of the scope of each industry group, methodology adopted for the conventional and revised estimates together with the estimates of working force for the year 1960-61. The improvements incorporated in the revised estimates relate to the industrial classification of national product, presentation of estimates separately for organised and unorganised activities in the economy and of gross and net product in each industry group, the incorporation of the 1961 population census economic data and the results of various surveys and studies undertaken by the CSO and other agencies. The estimates at constant prices have been improved by identifying more explicitly various items of outputs and inputs for the purpose of building up appropriate indicators and deflators required for measuring the gross/net product in various industries.

According to the revised estimates, the net national product at factor cost (i.e. national income) increased from Rs 13,453 crores in 1960-61 to Rs 20,424 crores in 1964-65 at current prices indicating an increase of 51.8 per cent over the period whereas the corresponding estimates at 1960-61 prices showed an increase of 20.6 per cent. The per capita net national product at factor cost (i.e. per capita income) at current prices, increased from Rs 310.0 in 1960-61 to Rs 427.1 in 1964-65, showing an increase of 37.8 per cent as against an increase of 9.4 per cent at 1960-61 prices. The gross national product at current market prices increased from Rs 15,137 crores to Rs 23,308 crores during the same period.

The share of the public sector in the net domestic product at factor cost increased from Rs 1,453 crores in 1960-61 to Rs 2,424 crores in 1964-65 showing thereby an increase from 10.7 per cent to 11.8 per cent of the total. During this period the direct taxes increased from Rs 420 crores to Rs 762 crores. The gross fixed capital formation by public authorities (consisting of administration and enterprises) increased from Rs 717 crores in 1960-61 to Rs 1,138 crores in 1964-65.

FERTILISER PLANT AT KANDLA

A naphtha-based plant, with a capacity to produce 3,820 tons of fertilisers per day, will be set up shortly at Kandla in Gujarat state. Asia's largest, the plant will be in the co-operative sector and will be managed by the newly established Indian Farmers Fertilisers Co-operative Limited. The plant is a joint venture of the Indian co-operatives with assistance from co-operative societies of the USA, and is estimated to cost Rs 89.25 crores. It will have three units: ammonia unit with a rated capacity of 910 tons per day, urea unit 1,090 tons, and compost fertiliser section 1,820 tons of di-ammonia phosphate. The plant will manufacture 382,000 tons of urea and 637,000 tons of compost fertiliser annually. On the basis of 330 working days a year, the plant will produce 215,000 tons of nitrogen, 127,000 tons of P₂O₅ and 66,000 tons of 20. Earlier, expert teams on behalf of the American co-operatives visited

various places in the country and prepared a project report. Considering various economic and technical aspects, Kandla was found the most suitable site for the proposed plant.

CREDIT POLICY FOR BUSY SEASON

A broad outline of the Reserve Bank's credit policy for the busy season (November-April) was provided by the RBI Governor, Mr L. K. Jha, at a meeting he had in Bombay on October 30 with the chairmen and chief executives of the larger Indian and foreign banks. The Governor of the Reserve Bank reviewed credit trends in the slack season just ended and assessed the credit outlook in the current busy season. Following these discussions, the Reserve Bank would be sending a communication to the scheduled commercial banks on the credit policy for the current busy season. The meeting took note of the likely increase in the demand for credit compared to last year in view of the expansion in agricultural output and the expected recovery in industrial production. The stepping up of official procurement operations in foodgrains was also expected to increase credit requirements. The Governor pointed out that despite the increase in production and the expectation that the upward trend in prices would be halted if not reversed, the movements in prices to-date did not give room for complacency so as to permit a generally expansionary credit policy. However, recognising the need for ensuring that the productive effort was not slowed down, the accent of credit policy will continue to be on selective liberalisation. Some measures had been announced by the Reserve Bank and the Industrial Development Bank of India last August and September. Over and above these measures, the Governor announced that the Bank rate refinance would (following the recommendations of the Working Group presided over by Prof. Karve on this subject) be available in respect of credit for distribution of chemical fertilisers and pesticides.

The much larger demand for food procurement credit was also taken note of and the Governor announced that the Reserve Bank would provide refinance at Bank rate in respect of credit for such operations over and above the level of October 27, 1967. Further, such refinance would not be counted for purposes of net liquidity ratio computations. The Governor also announced that the Reserve Bank would be prepared to extend Bank rate refinance in special cases and to meet temporary stringency experienced by individual banks. Such special cases would cover needs arising out of tax payments or bunching of imports of raw cotton, soyabean oil, maize starch, etc.

The Governor of the Reserve Bank stated that the liberalised refinance facilities now available and to be provided should substantially meet the expected increase in credit demand. Banks should, therefore, be able to meet all genuine needs for production. He indicated, however, that the Reserve Bank was anxious that production should on no account be impeded for lack of credit and, accordingly, banks were advised to bring to the Reserve Bank's notice cases where they could not sanction loans to agricultural borrowers and to manufacturing units, big or small, only because of paucity of resources, although such borrowers satisfied other banking criteria, so that the Reserve Bank could consider what additional assistance should be provided. The Governor clarified that the refinance at the Bank rate under various special schemes would be additional to what a bank was entitled to obtain on the basis of the full excess of its net liquidity ratio over 30 per cent. The system of higher interest rates applied last year in respect of borrowings from the Reserve Bank above the Bank rate entitlement would be liberalised. Where the excess borrowings were for temporary periods, i.e., up to one week, interest would be charged at Bank rate. Even where the excess continued beyond one week, the rate that would apply would be less than

last year. The Governor referred to the study undertaken by the working group on unsecured advances which indicated that many types of unsecured advances were for productive purposes. He announced that the major recommendations of the working group had been accepted and that a communication to banks would follow in this regard. This would give the banks some additional flexibility of operations by allowing them to extend unsecured credit more freely for production, trade and exports. The bankers agreed with the Governor that efforts at mobilising deposits should continue to demand utmost priority. In this connection they urged the Reserve Bank to be more liberal in the matter of approving applications for opening urban branches. They also welcomed the proposed establishment of a National Credit Council as an agency which would provide a clearer guidance to banks in the matter of credit priorities. In order to assess the impact of the present policy measures and to take into account new developments that might take place, it was proposed that a further meeting be held in the latter half of January, 1968. Meanwhile, the banks were assured by the Governor that the existing facilities as well as the facilities announced at the meeting would be maintained throughout the busy season and that banks could plan their operations on that basis.

CREDIT CONTROL ON COTTON

The Reserve Bank of India has imposed selective credit control on cotton and kapas in order to facilitate the use of bank credit for genuine transactions in cotton, excluding imported and exportable varieties. A minimum margin of 25 per cent on advances to cotton mills and of 35 per cent to others has been enforced. Simultaneously, a ceiling of 85 per cent of last year's (November-October) advances excluding demand documentary bills against cotton has been imposed for banks making advances. Lest normal marketing operations in cotton producing regions be adversely affected for want of credit, advances against the security of or by way of purchases or discount of demand documentary bills drawn in connection with the movement of cotton and kapas have been exempted from the purview of control. Banks have to calculate their ceiling month-by-month with reference to last season. But it is left to the discretion of banks to select either the corresponding month last year or the one immediately following it. Banks have also been permitted to use different base months for different branches, but once it has been chosen by a branch, it must adopt the same formula in the choice of base month through the year. Within the overall ceilings, banks are free to extend credit to individual borrowers on merits without applying a uniform percentage cut as compared with the last season.

FERTILISER CREDIT FOR FARMERS

About 10,000 farmers in Maharashtra are to be provided facilities for purchasing plant nutrients under a Rs 25-lakh credit scheme pioneered by the Central Bank of India Ltd in collaboration with the Bombay fertiliser distributing firm of Dhanvantrai. As the normal duration of various crops ranges between three and five months, a substantial portion of the amount could be used more than once in a year, according to the promoters of the scheme. Fertilisers worth Rs 550 crores and other agricultural inputs worth about Rs 250 crores would be marketed by the end of 1970-71, and credit requirements would total about Rs 365 crores. Farmers would be accorded credit facilities for purchasing fertilisers at the appropriate time and pay back the loan after harvest. The loans will carry an interest rate of less than 10 per cent.

TRADE AGREEMENTS WITH BULGARIA

Trade worth Rs 16 crores each way during 1966 was agreed upon recently between a Bulgarian trade delegation led by Mr Tihomirov, First Deputy Minister for Foreign Trade, and an

Indian team headed by Mr Mohd. Shafi Qureshi, Deputy Minister of Commerce. Bulgaria will, for the first time, build a ship for India on an order from the Shipping Corporation of India. Some engineering products, particularly dumpers, will be exported to Bulgaria besides de-oiled cakes for cattle feed and jute bags. Imports from Bulgaria will include a large range of capital goods under suppliers' credit, fertilizers and other basic chemicals needed for the chemical industry. Special steels and non-ferrous metal imports are also expected. Meanwhile, the State Trading Corporation will be exporting over three lakh pairs of shoes, worth Rs 1.25 crores to Bulgaria. A contract to this effect was signed in New Delhi on October 30. This is the first time a bulk contract for the export of shoes has been signed with Bulgaria. The contract will be executed in two parts. The deliveries against the first part are to be completed by December 31. The details for the second part will be finalised shortly by Prinimpex, the buying organisation for footwear in Bulgaria.

HANDICRAFTS EXPORT

India's exports of handicrafts have gone up to a record figure of Rs 40.41 crores as against an annual average of Rs 7.04 crores in the first five-year Plan, Rs 9.66 crores in the second Plan and Rs 23.70 crores in the third Plan. The present figure is expected to be doubled within the next three or four years. This was disclosed to newsmen by Mr Mohd. Shafi Qureshi, Deputy Minister of Commerce, on the eve of the 13th Handicrafts Week which began on November 4. An indication of the immense popularity abroad of Indian handicrafts was had at the Expo67 where the sales of handicrafts at the close of the exhibition on October 29, after its six-month run, amounted to Canadian \$1,286,530 (Rs 89.16 lakhs). Sales at the New York World's Fair had amounted to only Rs 31.33 lakhs. Handicrafts production at present is worth about Rs 317 crores per annum, which is more than three times the figure of Rs 100 crores in 1956-57. Total sales have also increased from Rs 1 crore through about 40 emporia to Rs 4 crores through 134 emporia during the same period. The growth in the exports of handicrafts is mainly due to the efforts made by the Handicrafts and Handlooms Exports Corporation which came into existence in 1962 as a result of the merger of the Indian Handicrafts Development Corporation and the Handloom Export Corporation. The All-India Handicrafts Board is another organisation which is looking after the interests of the industry and of the artisans connected with it. The Handicraft Exporters Association is also quite active. Four design centres are being set up by the Handicrafts Board with a view to introducing new products in the market. Design activities of these centres will, however, be mainly "export-oriented". Production of handicrafts involves a good deal of imported raw materials, chief among them being uncut diamonds (Rs 40 crores per annum), superfine variety of wool for carpet manufacture (Rs 9 crores) and metals for brassware. Under the "Raw Material Replenishment Scheme", the Handicrafts Board, which acts as a bank for the manufacturers, helps them in getting their raw material supplies without delay.

COMMERCIAL BROADCASTS ON A.I.R.

For the first time in India's broadcasting history, All India Radio began putting up commercial advertisements on its Bombay, Nagpur and Poona stations from the evening of November 1. Meanwhile the Government of India has constituted a 19-member Advisory Board on Commercial Broadcasting with Mr H. R. Luthra, Deputy Director-General, Commercial Broadcasting, as Chairman. The Board will advise the Commercial Broadcasting Service of All India Radio on the content of commercial programmes; the duration, spacing and frequency of commercial broadcasts; commercial rates; relations with clients, code of conduct, mode of payment, amenities, concessions and surcharges.

CHAIRMAN'S STATEMENT

OIL INDIA LIMITED

(A 50:50 Partnership Venture of the Government of India and The Burmah Oil Company for Prospecting, Drilling, Production and Transport of Crude Oil from Assam to Refineries in Gauhati, Assam and Barauni, Bihar)

STATEMENT OF THE CHAIRMAN, SHRI KHANDUBHAI K. DESAI, M.P., TO THE SHAREHOLDERS ON THE OCCASION OF THE EIGHTH ANNUAL GENERAL MEETING OF OIL INDIA LIMITED, HELD AT DULIAJAN, ASSAM, ON THURSDAY, AUGUST 24, 1967.

Gentlemen,

The Report of the Board of Directors and the Accounts, record the results of the operations of the Company during the last year. However, the Defence of India Rules restrict the circulation of these official documents and it is therefore, desirable for me to review the overall situation particularly in relation to the indigenous crude oil production so that there is a better appreciation of the aims and objects and functions of your Company.

CONSUMPTION OF PETROLEUM PRODUCTS

The rate of increase in demand for oil is an index of industrial and technological progress and reflects sharply any rise or fall in the tempo of industrial progress. A succession of bad monsoons and continuing foreign exchange crises have led to a slackening of demand for goods, industrial and otherwise; but paradoxically this did not lead to a fall in the general price level. In fact the prices have gone up. In this sense this is not a recession that follows a boom, in the classic pattern, but an outcome of various factors peculiar to the present economic conditions in India. While measures are being taken by the Government to check the effects of these malignant pressures on our economy, the consumption of petroleum products has not proceeded on anticipated lines; total consumption in 1966 was about 12 million tonnes as against earlier expectations of its reaching a figure of about 14 million tonnes. Even this growth represents a steady 8 per cent annual rise on an average over the previous figures in the last ten years. However, considering the fact that economic activity is expected to gather momentum, long-term planning for petroleum products will pick up. Despite this setback, long-term planning would do well to take into account factors like increasing standards of living and a shift to petroleum products from other sources of energy in the typical conditions obtaining in India.

A TEN-YEAR PLAN FOR CRUDE OIL PRODUCTION

I have already referred to the growth in the demand for petroleum products. The refinery capacity in the country has more or less reached a stage of self-sufficiency with marginal surpluses and deficits which are normal in such operations. But the gap between the crude oil required and the indigenous production is large and will continue to grow with the passage of time. Last year about 5 million tonnes of crude oil was produced of which a substantial quantity—a little less than half of the total—was from the oilfields of Oil India Limited. Total indigenous production is expected to be raised to 9 to 10 million tonnes by 1971. But the demand for crude in 1971, taking a cumulative growth rate of 9 per cent per annum will be of the order of about 23 million tonnes. Thus a large quantity of crude oil will still have to be imported. If demand continues to increase at this rate, and this is to be expected, crude oil requirements in 1976 will be of the order of about 30 million tonnes. With our difficult foreign exchange situation and the demands on it from other developing sectors we could ill afford to spend crores and crores of rupees year after year on importing crude oil alone. In planning for crude oil production due margin should be given to the long gestation period between investment and production. Apart from the drag on foreign exchange resources the country as such should not be dependent on outside resources to the extent of these imports without making intensive efforts to discover more indigenous crude oil.

Much has been done but more intensive effort is necessary. It will cost considerable money but as a long-term plan to save on foreign exchange and achieve self-reliance in this very vital sector we should be prepared to give the highest priority in allocating resources to this purpose.

PRODUCTION OF CRUDE OIL

In 1966, Oil India Limited met in full the crude oil requirements of the refineries in the Public Sector at Gauhati, Assam, and Barauni, Bihar. It also supplied certain quantities of oil to the Digboi Refinery. The total quantity of oil thus supplied by it represents a rise of about 23 per cent over the previous year's figure. Since then, with the improvement in the output of the Barauni Refinery the rate of crude oil production has further improved.

This is roughly about 40 to 45 per cent of the total crude oil production inside the country from the oilfields of Assam and Gujarat. In terms of the value of crude oil, this may be regarded as a saving in foreign exchange of over Rs. 20 crores.

EXPLORATION

In the Company's Exploration Licence Areas, adjoining its Mining Leases, we have drilled a number of exploration wells. One of the exploratory wells has already found some oil and another some gas.

Irrespective of the outcome, the Company has to seek to replenish its reserves by continuous exploration because oil is a wasting asset. The highly variable nature of the oil-bearing formations in O.I.L.'s licence and lease areas with their heavily faulted structures makes exploration (even development drilling) much less predictable than elsewhere. This puts a premium on carefully planned efforts as a means of avoiding drilling more wells than is absolutely necessary. Our technical experts are constantly engaged in these exercises.

In the first phase of its exploration programme, the Company completed about 900 line miles of seismic surveys and drilling of exploratory wells at a cost of about Rs. 216 lakhs. The second phase of 1966-69 is now underway and total expenditure during this period is expected to be about Rs. 417 lakhs including Rs. 116 lakhs in foreign exchange.

While in due course the Company will generate enough funds in rupees to carry on this most difficult and exciting task, the present efforts have been rendered possible by loan facilities provided/assured by the two partners in Oil India, viz. the Government of India for the rupee finance, and The Burmah Oil Company, for the foreign exchange.

DEVELOPMENT DRILLING

As in previous years, the development drilling in the Company's Mining Lease Areas of 510 square miles during the year under review has been marked by efforts to introduce specialised techniques (such as dual completion, directional drilling), improvement in drilling efficiency, rig turn-around time and inventory control with the twin object of drilling sufficient number of wells most economically and with the maximum of speed.

Working with just four drilling outfits, we have completed 247 wells, 85 per cent of which have been oil producers. The yearly rate of completion of development wells has been phased to keep pace with forecasts of demand for crude oil and has been well in excess of actual requirements.

Keeping in view the target of maintaining crude production at the optimum rate over a long period the Company has chalked out a drilling programme for the next five years. It expects to drill 65 development wells, 20 injection wells, five outstep wells, and about eight exploratory wells. On a rough estimate (excluding the expenses on exploration already given above) this will cost us about Rs. 1,500 lakhs.

SECONDARY RECOVERY MEASURES

Side by side with development drilling, pilot gas and water injection projects for pressure maintenance have been initiated. In order to maintain production over as long a period as possible, work on these schemes/measures will be intensified, after the Company has seen the actual effects of continuous production at the optimum production rate.

RESERVES

As a result of successful developmental drilling the proved and indicated reserves of crude oil with the Company (including the total quantity of crude oil so far produced) have recorded an increase of about 17 to 18 per cent.

GAS SUPPLIES



As in the case of oil, utilisation of the gas necessarily produced along with crude oil (associated gas) is dependent on the progress of various schemes for which block quantities have been earmarked. But unlike oil, the Company cannot control production of associated gas which comes out with oil. Apart from the quantities of gas sold to the Assam Oil Company and used in its own fields, the Company's commitment to supply gas to various parties (mainly State and Central Government undertakings) continues to be of the order of 38 MM cft. per day. However, the actual offtake against this indent during the first half of 1967 was only 4.43 MM cft. per day; the balance of gas has of necessity to be flared. The Company has little control over this, and in the absence of ready market in the area the proper utilisation of our gas depends on the satisfactory operations of projects to which it was committed many years ago. Storage of this gas on the scale required to avoid flaring would be uneconomic within the framework of the prices at which gas is being sold and in relation to the prices and offtake which can be expected in later years.

CRUDE CONDITIONING PLANTS AND PIPELINE



The Crude Conditioning Plants at Nahorkatiya and Moran, which were set up to make the viscous Nahorkatiya-Moran crude pumpable have been in operations now for the last three successive cold weather periods. Apart from routine overhauls and minor repairs, the plants have not given any trouble. This is a heartening feature as these plants were designed to conform to a pilot plant and a formula, and are the first of their kind in the world.

Similarly, the crude oil pipeline system of the Company connecting the oilfields with the Refineries at Gauhati, Assam; and Barauni, Bihar, has been fully operational. It is one of the most modern pipelines of its kind in the world and the design has proved its worth in practice; as an example we have been able recently to detect and repair some leaks, which were to be expected in pipeline operating without in any way affecting the flow of oil and with the loss of only a very small quantity.

In addition, the Company is maintaining (but not operating) the Indian Oil Corporation's products pipeline from Gauhati to Siliguri.

Recently, the Oil and Natural Gas Commission have asked us to examine the possibility of transporting the crude oil produced by the Commission through our pipeline. This matter is under our active consideration.

IMPACT OF DEVALUATION

The devaluation of the rupee in June 1966 had an impact on the Company's operations. The cost in rupees of servicing our foreign exchange debt has gone up substantially as also the continuing costs of imports and foreign services. These increases in cost have to a certain extent been offset by the increase in the price of crude oil sold to the refineries but the full impact of these and other factors will be seen only when the fields go on full production following improvement in the Refinery offtake.

RELATIONS WITH WORKERS



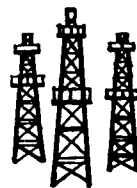
The Company realises that a happy and contented workers' force is a great asset contributing to its successful operations. With this end in view it has taken various measures during the last six years or so. Particular mention should be made of the Company's housing and settlement schemes which between them have been able to accommodate 51 per cent of the total number of workers with us. Under the Settlement Scheme, which is becoming more and more popular amongst the workers, the Company acquires land, develops it (which includes provision of sanitation and basic structure including roof) and then gives it to the worker on long lease free of cost. The workers build houses of their own with loans provided by the Company. Repayment of loans is effected by deducting the house rent to which a worker is entitled. Thus the workers have a house of their own without any strain on their monthly earnings. In addition, they are provided with free water supply, electricity, gas, and fans; in short they are given all such facilities as are available in the Company's own houses. Leave fare assistance providing free travel to employees and their dependents to and from their home destinations, has been extended to junior executives and workers during this year.

I feel satisfied with the management's relations with the workers and the way in which grievances, if any, are discussed across the table and resolved amicably. The educational, medical, recreational, sports, and other facilities provided at Duliajan for workers and their dependents are availed of by all thus cementing the bonds between them and with the management. It is the policy of the management to foster and develop contacts with workers systematically on terms of social equality after office hours. We have been paying a substantial bonus equal to three months' basic pay to the workers.

INDIANISATION

Oil India was registered in February 1959, and, once the minimum facilities had been completed at Duliajan by January 1962, a separate full-fledged field headquarters was established there under a General Manager with the requisite technical supervisory staff and workers' force. At that time there were 41 foreign technicians on the pipeline project, and 28 foreign specialists in the field on the pay-roll of the Company. In line with the Company's policy to reduce the number of foreign personnel employed consistent with efficient operations, only five foreign specialists are now with us.

TECHNICAL ACHIEVEMENTS OF OIL INDIA



The technique of directional drilling to which I have already referred briefly is not new as it has been practised in oilfields elsewhere. It was however, applied for the first time in India by Oil India when it started drilling a deviated well in December 1962 to tap the crude oil deposits underneath the River Burhi Dehing which divides the Company's Mining Leases in two parts and is as wide as about half a mile in some places. Since then we have drilled a total of 16 deviated wells, 15 in the Mining Lease Areas, and one in the Exploration Licence Area. Our Drillers have developed the use of this technique to the extent that last year they were able to take the bit to within two meters of the exact objective which I regard as a noteworthy achievement.

We have completed a total of 26 dual completion wells in the Mining Lease Areas. Many wells in Nahorkatiya and Moran pass through two or more oil-bearing sands. In such cases the conventional method is to produce oil from only a single sand and only when the bottom sand is exhausted to open the higher one. However, through dual production wells we are in a position to produce oil from either sand or simultaneously from both sands through the same well thus increasing the well head potential.

Up to 1.8.1967, to provide the required production potential, a total of 2,718,207 feet have been drilled in the Mining Leases and Exploration Licence Areas. This is not a mean achievement considering that only four drilling outfits have been used.

We now hear a good deal about the gas turbine electrical generating stations which have been installed in Assam and Gujarat, but Oil India was the first to set up a gas turbine power station at Duliajan to meet the requirements of the oilfields and the housing area.

In addition, we have had to construct a total of 122 miles of asphalted and gravelled roads in our areas in Nahorkatiya and Moran at considerable cost. Many of these roads are now used by public traffic.

PROBLEMS OF INDUSTRY

The magnitude of the Company's operations is such that problems of diverse nature will always crop up. What is important is the inherent strength to overcome these problems without disturbing the normal routine in a spirit of 'business as usual'.

I express my gratitude to the State Government of Assam and the Government of India for their assistance in matters of land acquisition. However, the problem is very intricate as Oil India has to acquire many small pieces of land for their drilling operations over an extensive area which affects a large number of small cultivators. Our Mining Leases cover 510 square miles and the remaining Petroleum Exploration Licences 761 square miles, but the total area of land occupied by Oil India in the housing areas at Nahorkatiya and Moran. We are doing our best to pay fair compensation and in all cases where there is disagreement on this, award is taken by us as final.

We are very conscious of the need to maintain good relations with people in the areas where we are operating and our land acquisition and recruitment policies are framed with this in mind. In addition, we assist local schools and provide scholarships which are awarded by the Government of Assam.

The Company welcomes suggestions for improvement and we are considering most carefully the various recommendations made at a Conference held in Shillong recently.

The Royalty matter which was settled four years ago as a result of the late Shri Jawaharlal Nehru's award has come up for reconsideration. It is, however, a matter for the Central and State authorities to settle keeping in view the larger issues not the least of which is the necessity to encourage the indigenous oil industry which is of vital and national importance.

MANAGEMENT



The arrangements under which the affairs of Oil India have been managed have stood the test of time. I may therefore be permitted to refer to one or two aspects which may be applicable elsewhere when the organisation of other enterprises is being considered.

There is equal representation of the Government and The Burmah Oil Company on the Board, and in fairness to both, I must say that the deliberations of the Board are guided by determination to pro-exclusion of other matters. The result is the emergence of clear-cut agreed policies which are implemented through a chain of authority based on a practical scheme of delegation. The Board, and in particular the Managing Director and the Financial Director, have contributed a great deal towards the success of these operations and I hope this arrangement continues for a sufficiently long time to enable Oil India to grow and acquire new dimensions. It has great potentialities, and its background, historic and present, qualifies it to play an extremely important role in developing the country's crude oil resources.

DIVIDEND

After providing for depreciation we have recommended a total dividend of Rs. 127.22 per share for the year 1966. An interim dividend of Rs. 60 per share was declared and paid in December 1966. The net return on equity in 1966 will be 9.375 per cent after deducting dividend tax.

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

COMPANY MEETING

TATA CHEMICALS LIMITED

Statement of the Chairman

The following statement by Mr. J.R.D. Tata, Chairman of Tata Chemicals Limited, dealing with the Company's working for the year ended 30th June 1967, has been issued to shareholders. The Annual General Meeting of the Company will be held on Friday, 24th November 1967, at 4-30 P.M. at "Bombay House", Bruce Street, Fort, Bombay 1.

TO

THE MEMBERS,

Review of Year's Progress

1. The Company made good progress during the year under review and the results of its operations were particularly gratifying if one bears in mind the adverse factors which had to be surmounted in achieving them. In addition to facing an acute water shortage, for the fourth successive year, Mithapur was struck, in January 1967, by a serious fire in the Power Plant. Had it not been for the resourcefulness and determination displayed by the Management in dealing with this near catastrophe, operations might have been paralysed for several months, whereas the Plant resumed operations on the fifth day after the fire. In addition, the Company suffered, along with all industry, from the continued inflationary pressures which increased the cost of its raw materials and fuels, and also from the recession in demand for all industrial products.

2. The year's results achieved under such adverse conditions, are a measure of the inherent strength of the Company which now ranks amongst the most successful and self-reliant industrial operations in the country. They have proved once again that our most valuable asset lies in our highly experienced, resourceful and devoted staff.

Progress of Expansion Programmes

3. The Company's expansion programmes, aimed at creating additional capacity in Soda Ash and Benzene Hexachloride and new capacity for Methyl Bromide, have made some headway. However, the full realisation of the programmes now hinges on the modernisation and expansion of the steam-power plant. Unfortunately, the procedural bottlenecks have seriously delayed the ordering of new equipment despite the fact that the Company has had available to it for a long time the foreign exchange resources necessary to cover the purchase of the minimal foreign equipment required for the steam-power programme.

4. While the Company has done exceptionally well during the last five years in increasing its earnings from year to year, there is a limit to the possibility of maintaining such a rate of progress in respect of our present operations at Mithapur in a continuously worsening economic environment, with costs beyond the Company's control constantly rising and eroding the gains achieved through increased production and efficiency.

Fertilizer Project

5. This situation, and the Company's future prospects, could, however, alter dramatically if the Tata fertilizer project, about which shareholders will have read in Press reports, materialises. This project is of such magnitude and, if implemented, will have such a major effect on the Company's future, that shareholders will wish me to include a reference to it in this Statement, even though the project is still at a preliminary

stage and has not yet been finalised or submitted to Government.

Background

6. India's economic distress and the ever-deepening problems and difficulties it faces, year after year, basically arise from the growing imbalance between its population and its economic output, particularly in the field of agriculture. There is a desperate need therefore, both to reduce the rate of growth of our population, and to increase that of our national output.

7. While the control of population is obviously beyond the means and resources available to private industry, except to a very small extent through family planning measures in industrial centres, your Managing Agents and their parent firm, Tata Sons, have felt for some time that a significant contribution could and should be made by Tatas to the solution of the country's food problem through the manufacture and marketing of fertilizers on a massive scale. As, however, the pre-conditions necessary to make it possible to embark on such a large project were then lacking, little progress was made with the project until recently. Government's changed attitude and policies in regard to fertilizer production in the private sector, combined with the recent harrowing experience of the people of Bihar and other States, and the threat of even greater disaster in the years to come, galvanized the Firm and particularly my colleague Mr Darbari Seth and his staff, into renewed and concentrated effort to complete the study begun two years ago. From this emerged the present comprehensive proposal to establish a great fertilizer complex based on the phased development of indigenous resources which, when completed in eight or ten years, would be by far the largest in India, and possibly in the world, and would produce over 2 million tonnes per year of balanced fertilizer materials capable of increasing food production by 12 to 15 million tons and of feeding 60 to 75 million people.

8. The project lends itself ideally to location in the neighbourhood of Mithapur for both geographical and technical reasons, and it was therefore recommended by Tata Sons for adoption as a Tata Chemicals project to your Board of Directors who have approved of it in principle.

9. While the project has been entirely conceived in general outline as well as in detail by Tatas, it envisages technical and financial collaboration between the Company and Messrs Allied Chemical Corporation, U.S.A., the largest producer of alkalis and nitrogenous fertilizers in the world. The project has been examined and approved in principle in turn by the technical experts and the Board of Directors of Allied Chemical and the terms of collaboration are at present under detailed negotiation with them. I may inform shareholders, pending completion of these negotiations, that, subject to the approval of the shareholders and the Government of India, the scheme of collaboration envisages subscription by Allied Chemical of

20% of the share capital of the Company, and a fair representation on its Board of Directors. While advantage will be taken of the vast technical knowledge and experience of Allied Chemical, the management will remain with the Indian partner.

10. A formal application to Government is under preparation and will have been submitted by the time the Annual General Meeting of the Company takes place. I had the privilege of joining personally in an advance presentation of the project to the Prime Minister, Mrs Gandhi, when she honoured us with a visit to Mithapur on the 30th September this year. The scheme is such an attractive one with so many unique features and advantages, that I have every hope that it will meet with a favourable and early response from Government.

11. A striking feature of the project is that it will lend itself to ultimate integration into a vast agro-industrial complex in Okhamandal, centred on a very large nuclear plant which would not only generate cheap power, but also desalinate large quantities of sea water, thus transforming neighbouring areas, today dry and arid, into fertile agricultural land on which could be based the most advanced forms of irrigated agricultural operations, seed farms, cattle farms, etc.

12. The shareholders will, I expect, particularly want to know something of the financial implications of such a vast project estimated to require over Rs 200 crores including working capital. While the bulk of the finance is expected to be found from borrowings, both in India and abroad, and from retained earnings, a fairly substantial amount will have necessarily to be raised in the form of share capital to be offered to

the existing shareholders and to Allied Chemical. Your Directors realise only too well the difficulty of raising substantial sums of money from a largely defunct market and shareholders may rest assured that proposals for capital issues will be put forward from time to time to meet the needs of the developing fertilizer complex, with due regard to the conditions prevailing at the time in the financial markets, and to the interests of the shareholders who will in any case themselves have a decisive voice in the matter along with Government.

13. While it is yet too early for me to indicate the number, magnitude and phasing of such fresh capital issues, I may say that it is the intention of your Directors that fresh capital be issued in easy stages and payable in instalments over a number of years, in such a manner as to ensure that, in effect, the dividends on the existing capital will not be affected and that a reasonable return, in keeping with ruling market yields and expectations, will be paid on the new capital as and when each phase fructifies. It is also the intention that the new shares will rank pari passu with the old ones and will participate in dividends after a short gestation period.

14. I am sure that the shareholders will welcome this great project which, while bringing about a spectacular expansion of the Company on sound and profitable lines, will, at the same time render outstanding service to the country.

J. R. D. TATA

Chairman

Bombay, 27 October, 1967.

THE UNITED COMMERCIAL BANK LIMITED

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

AUTHORISED CAPITAL	.. ..	Rs. 8,00,00,000
SUBSCRIBED CAPITAL	.. ..	Rs. 5,60,00,000
PAID-UP CAPITAL	.. ..	Rs. 2,80,00,000
RESERVE FUND AND OTHER RESERVES (31-12-1966)	.. ..	Rs. 4,00,00,000

DIRECTORS

L. P. GOENKA
Chairman

M. P. BIRLA
Vice-Chairman
ANANTA CHURN LAW
G. D. KOTHARI
RANG NATH BANGUR
MOHANLAL NOPANY
YOGINDRA N. MAFATLAL

MADANMOHAN R. RUIA
Vice-Chairman
MOTILAL TAPURIAH
T. S. RAJAM
SHRENIK KASTURBHAI
S. T. SADASIVAN
DR. R. R. HATTIANGADI

BRANCHES

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

BUSINESS AND SERVICE

Current Accounts opened. Fixed Deposits received for long or short periods. Savings Bank Accounts. Recurring Deposits for accumulated capital in convenient monthly instalments. Foreign Currency and Rupee Travellers' Cheques sold and encashed. Other types of domestic and foreign exchange business.

R. B. SHAH
GENERAL MANAGER

To Plug The Drain Of Foreign Exchange

use

RAYON - GRADE DISSOLVING PULP

based on Kerala Bamboo

produced and marketed

by

THE GWALIOR RAYON SILK MFG. (WVG.) CO., LTD.,
(Pulp Division)

Birlakootam—Kozhikode

Gram: 'WOODPULP', Calicut.

Phone: 3971-74

Mg. Agts: Birla (Gwalior) Pte Ltd, Calcutta

Regd. Office: Birlagram, Nagda (M.P.)

ANNOUNCEMENT REGARDING THE PROPOSED ISSUE OF DEBENTURE STOCK

This is only an Announcement and not a Prospectus. Persons interested are requested to obtain copies of the Prospectus and Application Forms which are available at the Registered Office of the Company, the Company's Registrars, Bankers to the issue and Brokers hereunder mentioned.

THE SUBSCRIPTION LIST WILL OPEN AT THE COMMENCEMENT OF BANKING HOURS ON MONDAY, THE 20TH NOVEMBER, 1967 AND WILL CLOSE AT THE CLOSE OF BANKING HOURS ON WEDNESDAY, THE 29TH NOVEMBER, 1967, OR EARLIER, AT THE DISCRETION OF THE DIRECTORS, BUT NOT EARLIER THAN THE CLOSE OF BANKING HOURS ON WEDNESDAY, THE 22ND NOVEMBER, 1967.



PHILIPS INDIA LIMITED

(Incorporated as a Private Company on the 31st January, 1930, under the Indian Companies Act, 1913 and converted into a Public Company on the 31st October, 1957)
Registered Office : 7, Justice Chandra Madhab Road, Calcutta-20

EXISTING AND PROPOSED ACTIVITIES

The Company was incorporated on the 31st January, 1930, as a private company under the Indian Companies Act, 1913, as Philips Electrical Company (India) Limited, which name was changed to Philips India Private Limited on the 12th September, 1956. The Company was converted into a public company on the 31st October, 1957.

The Company was formed with the object of dealing in electric lamps, radio sets and other products manufactured by N. V. Philips' Gloeilampenfabrieken, Holland and other associate companies in Holland and in other countries abroad. Since 1938, a large portion of electric lamps sold by the Company has been locally manufactured progressively. In 1960, the Company acquired the lamp factory previously owned by Osler Electric Lamp Manufacturing Co. Ltd. (in liquidation) and further consolidated the arrangement for manufacture of lamps in the Company's factory by setting up a comprehensive manufacturing establishment at Kalwa in the State of Maharashtra for the production of not only finished lamps but also various components thereof such as tungsten and molybdenum wire, tungsten coils, glass shells, glass tubings for fluorescent lamps and fluorescent powder. A plant for assembly of Philips radio sets was established in Calcutta in 1947 and in the year 1957 an integrated plant for manufacture of radio sets and components was established in Loni near Poona where more and more radio components are being locally manufactured.

In addition, the Company has undertaken the local manufacture of scientific and industrial equipment, public address and telecommunication equipment, lighting fittings and accessories thereof. At present, over 97% of the goods sold by the Company are locally manufactured.

The Company has been continuously engaged in the business of electric lamps and has been progressively expanding its activities to cover the manufacture and sale of a wide variety of incandescent and fluorescent lamps, lighting equipment, radios, a great variety of radio components, electronic measuring/process and quality control equipment, scientific instruments, electro acoustic and telecommunication equipment and also the essential intermediate products and raw materials thereof.

69.23% of the capital of the Company is held by N. V. Philips' Gloeilampenfabrieken, Eindhoven, Holland and the Company,

by virtue of the various technical assistance agreements with Philips-Holland, obtains the benefit of their research facilities and vast technical knowledge in the field of production of radio apparatus, radio components, lighting fittings and accessories, public address equipment and other articles. This has helped the Company to make a valuable contribution to the development of the industries in which it is engaged.

The object of this issue is to provide finance for the Company's development and expansion plans mainly pertaining to radio receivers, radio components, electronic measuring instruments, industrial measuring and control instruments.

LOCATION OF FACTORIES

Location	Main Products
19, Convent Road, Entally, Calcutta.	Radio sets and components. Lighting fittings and accessories.
12, Canal Street, Calcutta.	Plastic and Metalware components.
134B, Beliaghata Road, Calcutta.	Trans-receivers.
39/43, Nesbit Road, Mazagaon, Bombay.	Scientific instruments, Industrial and process control equipment.
Kalwa Light Factory, Plot No. 3, MIDC Industrial Area, Thana Belapur Road, Iravali, Dist. Thana, Bombay.	GLS lamps, fluorescent tubes, glass shells, glass tubes, starters, ballasts, tungsten and molybdenum wire and coils, fluorescent powder.
Loni—Poona.	Radio sets and components.

SHARE CAPITAL

(a) AUTHORISED

1,00,00,000 ordinary shares of Rs. 10/- each Rs. 10,00,00,000

(b) ISSUED AND SUBSCRIBED

36,40,000 ordinary shares of Rs. 10/- each fully paid Rs. 3,64,00,000

PRESENT ISSUE

Rs. 1,50,00,000/- 7.75% Debenture Stock (First Mortgage). 1977-82 in units of Rs. 1,000/- each at par for cash payable in full on application. Applications for Debenture Stock must be for multiples of Rs. 1,000/- with a minimum of Rs. 1,000/-.

UNDERWRITERS

Name and Address	Amount Underwritten
Life Insurance Corporation of India, Yogakshema, Madame Cama Road, Bombay-1	Rs. 45 lakhs
The Industrial Credit and Investment Corporation of India Limited, 163, Backbay Reclamation, Bombay-1	Rs. 30 lakhs
Unit Trust of India, Bombay Life Building, 45, Veer Nariman Road, Bombay-1	Rs. 60 lakhs
National and Grindlays Bank Limited, 19, Netaji Subhas Road, Calcutta-1	Rs. 9 lakhs
Place, Siddons & Gough (Private) Limited, 8, Lyons Range, Calcutta-1	Rs. 6 lakhs

BOARD OF DIRECTORS

DR. WINFRIED CHRISTBERT JOHANNES VAN'T HOFF, 31, Usha Kiran, Carmichael Road, Cumballa Hill, Bombay, Chairman & Managing Director.

DR. PURUSHOTTAM KRISHNA KAPRE, 32, Golf Links, New Delhi-3, Industrial Director.

MR. NARAYAN DANDEKER, Southlands, 177, Upper Colaba, Bombay-5, Chartered Accountant, I.C.S. (Retired), Member of Parliament.

MR. JOHANNES LUSINK, 61, Elcid, Ridge Road, Malabar Hill, Bombay-6, Director of Finance and Administration.

MR. JACOBUS JACOB HERMAN DE VRIES, 152, Elcid, Ridge Road, Malabar Hill, Bombay-6, Technical Director.

MANAGING DIRECTOR

DR. WINFRIED CHRISTBERT JOHANNES VAN'T HOFF, 31, Usha Kiran, Carmichael Road, Cumballa Hill, Bombay.

TRUSTEES FOR DEBENTURE STOCK HOLDERS

MR. F. C. H. RUSTOMJEE, Sandersons & Morgans, 5 & 7, Netaji Subhas Road, Calcutta-1.

MR. S. K. GANGULY, Lovelock & Lewes, 4, Lyons Range, Calcutta-1.

BANKERS TO THE ISSUE

National and Grindlays Bank Limited, (at their offices/branches at Calcutta, Bombay, Madras, Delhi, New Delhi, Amritsar, Kanpur, Hyderabad and Bangalore).

Algemene Bank Nederland N. V., (at their offices/branches at Bombay and Calcutta).

The Bank of India Limited, (at their offices/branches at

Calcutta, Bombay, Madras, Delhi, New Delhi, Amritsar, Kanpur, Hyderabad, Bangalore, Ahmedabad and Indore).

Bank of America National Trust and Savings Association, (at their offices/branches at Calcutta and Bombay).

The Punjab National Bank Limited, (at their offices/branches at Calcutta, Bombay, Madras, Delhi, New Delhi, Amritsar, Kanpur, Hyderabad, Bangalore, Ahmedabad and Indore).

The American Express Company Inc., (at their offices/branches at Calcutta, Bombay and Delhi).

MANAGING BROKERS

Place, Siddons & Gough (Private) Limited, 6, Lyons Range, Calcutta-1.

BROKERS

CALCUTTA

Place, Siddons & Gough (Private) Limited, 6, Lyons Range, Calcutta-1.

BOMBAY

Batlivala & Karani, Union Bank Building, Dalal Street, Fort Bombay-1.

Harkisondass Lukhmidass, Stock Exchange Building, 5th Floor, Apollo Street, Fort, Bombay-1.

Dhirajlal Maganlal Purshotamdas, Stock Exchange Building, Apollo Street, Fort, Bombay-1.

Chimanlal Jesinghbhai Dalal & Co., 107, Stock Exchange New Building, Apollo Street, Bombay-1.

Lewis & Jones, Bank of Baroda Building, Apollo Street, Fort, Bombay-1.

Merwanjee Bomanjee Dalal, Allahabad Bank Building, Apollo Street, Fort, Bombay-1.

Rasiklal Maneklal & Co., Stock Exchange Old Building, Dalal Street, Fort, Bombay-1.

MADRAS

Paterson & Co., Vanguard House (III Floor), 11/12, Second Line Beach, Madras-1.

DELHI

Harbans Singh Mehta & Co., 33, Regal Buildings, Parliament Street, P.O. Box 300, New Delhi.

AHMEDABAD

Chinubhai Chimanlal Dalal, Manek-Chowk, Ahmedabad.

BANGALORE

M. Nanjappaiah Jahgirdar, 205, Cavalry Road, Bangalore-1.

SOLICITORS

Sandersons & Morgans, 5 & 7, Netaji Subhas Road, Calcutta-1.

AUDITORS

Lovelock & Lewes, Chartered Accountants, 4, Lyons Range, Calcutta-1.

REGISTRARS AND TRANSFER AGENTS

Jardine Henderson, Limited, 4, Clive Row, Calcutta-1.

Company Affairs

OIL INDIA

MR KHANDUBHAI K. Desai, MP, Chairman of the Oil India Ltd, revealed at the annual general meeting held recently that total consumption of petroleum products in the country in 1966 was nearly 12 million tonnes, as against earlier expectation of 14 million tonnes. The refining capacity in the country, he added, had more or less reached a stage of self-sufficiency. The crude oil required for these refineries was produced indigenously to the extent of five million tonnes out of which a little less than half was produced by the Oil India Ltd. In 1966, Oil India met in full crude oil requirements of the refineries at Gauhati and Barauni, and also supplied certain quantities of oil to the Digboi refinery. The company, he added, was continuously looking for more oil. In the first phase of its exploration, the company completed about 900 line miles of seismic surveys and drilling of exploratory wells at a cost of nearly Rs 216 lakhs. The second phase of 1966-69 was in progress and total expenditure during this period was expected to be around Rs 417 lakhs, including Rs 116 lakhs in foreign exchange. In the next five years, the company expects to drill 65 development wells, 20 injection wells, five outstep wells and about eight exploratory wells. On a rough estimate this will involve an expenditure of nearly Rs 15 crores, without taking into account the expenses on exploration.

Mr Desai stated that along with development drilling, pilot gas and water injection projects for pressure maintenance had been initiated and in order to maintain production over a long period work on these schemes was proposed to be intensified. He added that the crude conditioning plants at Nahorkatiya and Moran which were set up to make the viscous crude pumpable were in operation during the last three years. Apart from routine overhauls and minor repairs, the plant was functioning well. The crude oil pipeline system connecting oilfields with the refineries at Gauhati and Barauni were also in full operation. He added that the Oil and Natural Gas Commission had asked the company to examine the possibility of transporting crude oil produced by the ONGC through the pipelines owned by the company. This matter, he added, was under active consideration.

TATA CHEMICALS

Mr J. R. D. Tata, Chairman, Tata Chemicals Ltd, referred to the proposal of establishing a fertiliser complex, while reviewing the progress of the company for the year 1966-67. He pointed out that if the Tata fertiliser project materialises it will have a major effect on the company's future. This unit was proposed to be based on the phased development of indigenous resources which when completed in eight or 10 years would be the largest in this country producing over two million tonnes of balanced fertiliser materials every year. The project, he added, has been entirely conceived, in general outline as well as in detail, by the Tatas. It envisaged a collaboration with Messrs Allied Chemical Corporation, USA, the producer of alkalis and nitrogenous fertilisers. Mr Tata indicated that pending completion of the negotiations and subject to the approval of the shareholders and the Government of India, the collaboration envisaged subscription by Allied Chemical to the extent of 20 per cent of the share capital and fair representation on the board of directors. A striking feature of the project was that it would integrate into vast agro-industrial complex in Okhamandal, centred on a large nuclear plant which would generate cheap power and desalinate large quantities of sea water to be utilised in the neighbouring dry arid land. The bulk of the expenditure of Rs 200 crores for this project was expected to be found from borrowings in this country and abroad, from retained earnings and from additional equity capital.

Mr Tata stated that the company's expansion programme

for the creation of additional capacity in soda ash and benzene hexachloride and new capacity for methyl bromide had made some headway. The full realisation of the programme, however, hinged on the modernisation and expansion of the steam power plants. The company had done quite well during the last five years, he added, but in the present worsening economic environment when costs were increasing and eroding the gains achieved through increased production and efficiency, the company was finding rather difficult to maintain the same rate of progress.

INVESTMENT CORPORATION OF INDIA

The board of directors of the Investment Corporation of India Ltd recommended the payment of a dividend of Rs 9.50 per ordinary share on capital increased by issue of bonus shares. Last year, a dividend of nine rupees was paid on ordinary shares and a bonus of one rupee per share. Net profit for the year was Rs 40.90 lakhs, as against Rs 31.52 lakhs last year. A sum of Rs 10.65 lakhs was provided for taxation. The directors proposed to separate Rs 8.75 lakhs for general reserve and Rs 21.70 lakhs for dividend reserve. The gross income for the year was Rs 61.88 lakhs as against Rs 52.89 lakhs last year.

DEMPO STEAMSHIPS

Dempo Steamships Ltd. proposes to enter the capital market shortly with an equity issue of Rs 50 lakhs. The proceeds of the issue will be utilised for financing the company's expansion programme. With the proposed issue, the company's equity capital will rise to Rs 1 crore. The company fared quite well during the year ended March 31, 1967, with both the freight earnings and the gross profit recording a substantial increase. Income by way of freight and charter hire improved from Rs 22.58 lakhs to Rs 1.43 crores and the gross profit from Rs. 5.92 lakhs to as much as Rs 61.03 lakhs. A maiden dividend of six per cent per annum was proposed. The company added during the year fleet of the value of Rs 5.07 crores, bringing the total value of the gross block to Rs 7.67 crores. Depreciation provided so far amounted to Rs 45.18 lakhs and the net block as on March 31, 1967, was Rs 7.22 crores. As against the issued and subscribed capital of Rs 35 lakhs as on March 31, 1967, the reserves and surplus amounted to Rs 18.99 lakhs. Secured loans aggregated Rs 7.03 crores. Since the close of the year, the company issued an additional equity capital of Rs 15 lakhs.

NATION-STANDARD DUNCAN

Nation-Standard Duncan Ltd has fared well during the year ended June 30, 1967, and increased production from 1,758 tonnes to 2,625 tonnes. While sales moved up to Rs 93.76 lakhs from Rs 61.54 lakhs, the accounts, after providing for depreciation, revealed a net profit of Rs 3.14 lakhs against a loss of Rs 8.12 lakhs incurred in the previous year. Depreciation was lowered to Rs 10.85 lakhs from Rs 13.01 lakhs. The profit was set off against the carry-forward loss of Rs 15.54 lakhs, leaving a debit balance of Rs 12.39 lakhs, to be carried to next year. The directors stated that orders had been placed for additional machinery and equipment, which were expected to be in operation early next year when it was hoped that the level of production would increase. Small token exports were also made and the company was continuing to explore export markets to make larger exports once the production increased.

BOMBAY BURMAH

The Bombay Burma Trading Corporation Ltd reported lower earnings for the year ended May 31, 1967. The gross profit dropped to Rs 147.07 lakhs from Rs 174.65 lakhs in the previous year. Trading receipts after stock adjustments increased

by Rs 59 lakhs from Rs 3.20 crores to Rs 3.79 crores, but other income, principally dividends from the Sabah subsidiary companies decreased by Rs 11 lakhs from Rs 1.39 crores to Rs 1.28 crores. After providing Rs 1.16 lakhs for development rebate statutory reserve, Rs 0.33 lakh for tea development allowance statutory reserve, Rs 15.31 lakhs for depreciation and Rs 81 lakhs for taxation, the net profit for the year was Rs 49.27 lakhs in the previous year. After making certain adjustments and adding thereto Rs 0.65 lakh brought in from the previous year the surplus was Rs 50.21 lakhs. From this the directors transferred a sum of Rs 10 lakhs to the special reserve to cover a possible loss on advances to AFCCO Ltd. A sum of Rs 8.98 lakhs has been transferred from the general reserve No. 1 which made a total of Rs 49.19 lakhs. From this, a sum of Rs 0.74 lakhs was transferred to general reserve No. 2. The balance available for distribution was Rs 48.85 lakhs. The final dividend was 9.4 per cent making a total of 14.4 per cent for the year which absorbed Rs 38.15 lakhs. The carryover was Rs 0.30 lakh.

BLUNDELL EOMITE

Blundell Eomite Paints Ltd has shown a lower gross profit of Rs 17.76 lakhs for the year ended June 30, 1967, against Rs 26.99 lakhs for the previous year despite a substantial rise in its sales from Rs 2.48 crores to Rs 2.84 crores. After providing Rs 5.21 lakhs for depreciation, Rs 6.40 lakhs for taxation, Rs 1.68 lakhs for development rebate reserve and other adjustments, the company has set apart Rs 7.35 lakhs for general reserve out of which the proposed equity dividend of five per cent absorbing Rs 2.75 lakhs will be paid. Although the company's sales moved up, higher raw material prices and increased competition resulted in a fall in the margin of profit. The company has, however, received larger import licences against which raw materials will be received this year. Meanwhile, it has moved all its manufacturing operations to its new factory at Thana near Bombay.

KERALA RUBBER

Kerala Rubber and Reclaims Ltd, Kottayam, has offered for public subscription 73,500 equity shares of Rs 10 each and 100,000 9.5 per cent preference shares of Rs 10 each. The terms of payment are both equity and preference shares, Rs 2.50 per share payable on application, Rs 2.50 on allotment and Rs 5 in two calls of Rs 2.50 each. The company has an authorised capital of Rs 30 lakhs, made up of Rs 20 lakhs in equity shares of Rs 10 each, and Rs 10 lakhs in 9.5 per cent preference shares of Rs 10 each. The issued capital is Rs 25 lakhs, of which equity capital accounts for Rs 15 lakhs and preference capital of Rs 10 lakhs.

HINDUSTAN CABLES

The annual production of Hindustan Cables Ltd, (HCL) Roopnarainpur, a public sector undertaking, fast exceeded its rated capacity. The factory's sales nearly doubled from Rs 364.28 lakhs in 1964-65 to Rs 632.80 lakhs in 1966-67. While the factory continued to make profits, the quantum of profits has been falling. The net profits had gone down from Rs 40.25 lakhs in 1964-65 to Rs 18.22 lakhs in 1966-67. The factory was expected to save foreign exchange to the tune of Rs 75 lakhs this year. For the first time in the country, HCL in collaboration with the Central Mechanical Engineering Research Institute at Durgapur, succeeded in developing sources for cable making machines. Substantial progress was made in this direction and the factory expected to save foreign exchange for its current expansion programmes to the extent of Rs 200 lakhs by indigenous procurement of cable making machines.

CAPITAL AND BONUS ISSUES

Consent has been accorded to seven companies to issue bonus shares exceeding Rs 1.14 crores. The amount of bonus shares ranges between Rs 2.50 lakhs and Rs 60.23 lakhs. The consents are valid for 12 months.

Bombay Dyeing & Mfg. Co. Ltd, Bombay, has been accord-

ed consent to capitalise Rs 60,23,525 out of general reserve and issue fully-paid equity shares of Rs 25 each as bonus shares in the ratio of one bonus share for every five equity shares held.

Indian Hotels Co. Ltd, Bombay, has been allowed to capitalise Rs 20 lakhs out of general reserve and issue fully-paid equity shares of Rs 500 each as bonus shares in the ratio of two for three held.

Stumpp, Schuele & Somappa Private Ltd, Bangalore, is permitted 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 two for three held.

Asoka Mills Ltd, Ahmedabad, has been given consent 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 four held.

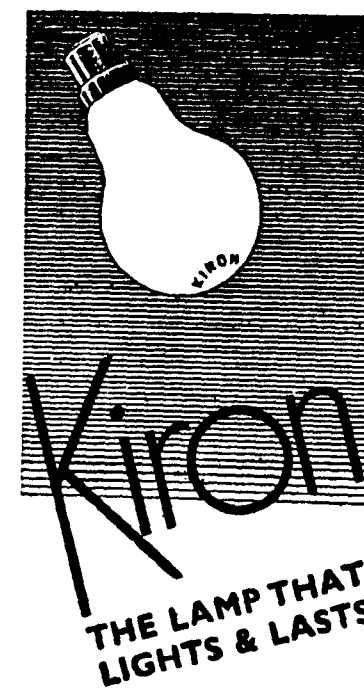
American Refrigeration Co. Ltd, Calcutta, is permitted to capitalise Rs 6,25,000 from general reserve and issue fully-paid bonus shares in the ratio of one for four equity shares held.

Marshall Sons & Co. (India) Ltd, Calcutta, is allowed to capitalise Rs 5,25,000 from general reserve and issue fully-paid bonus shares in the ratio of one bonus share for every two equity shares.

ECK Haubold & Laxmi Ltd, Bombay, has been accorded consent to capitalise Rs 2,50,000 out of general reserve and issue fully-paid equity shares of Rs 500 each as bonus shares in the ratio of one for two held.

LICENCES AND LETTERS OF INTENT

The following licences and letters of intent were issued under the Industries (Development and Regulation) Act, 1951, during the fortnight ended September 30, 1967. The list contains the names and addresses of the licensees, articles of manufacture, types of licences, i.e., New Undertaking (N.U.); Substan-



Kiron
THE LAMP THAT
LIGHTS & LASTS

MANUFACTURED BY:
BHARAT ELECTRICAL INDUSTRIES LTD.
17, RAJENDRANATH MUKHERJEE ROAD,
CALCUTTA-1

AGENTS:
THE ORIENTAL MERCANTILE CO., LTD.
CALCUTTA BOMBAY MADRAS DELHI
KANPUR

tial Expansion (S.E.); New Article (N.A.); Carry on Business (C.O.B.); Shifting and, annual installed capacity.

During the Week ended September 23, 1967

LICENCES ISSUED

Mineral Oil

M/s Caltex Oil Refining (India) Ltd, Caltex House No. 8, Ballard Estate, Bombay-1. (Visakhapatnam, Andhra Pradesh): 80/100 Penetration Asphalt—50,000 tonnes per annum. (N.A.).

Miscellaneous Chemicals

M/s Sandvik Asia Ltd, Bombay-Poona Road, Poona-12. (Poona—Maharashtra): Hydrogen Gas—700 thousand Cu. meters for captive use in the manufacture of Tungston Carbide. (Annual capacity after expansion). (S.E.); M/s Bombay Oxygen Corporation Ltd, 5, Convent Street, Colaba, Bombay-1. (Khopoli, Dist. Kolaba, Maharashtra): Oxygen Nitrogen—972000 Cub. metres, 1296000 Cub. metres (Shifting).

Insecticides

M/s Tata Fison Industries Ltd, Union Bank Building, Dalal Street, Fort, Bombay. (Belapur (Thana), Maharashtra): Formulations based in Dimethoate (Rogor)—220 tonnes.

Drugs & Pharmaceuticals

M/s Cyanamid India Ltd, P.O. Box No. 1994, Bombay. (Atul, via Bulsar, Gujarat State): Ledermicin (Demethylchlor-tetracycline) Soluble Tablets 30 mg.—25 lakhs tablets per annum. (S.E.).

Surgical & Medicinal Products

M/s Hindustan Latex Limited, New Delhi. (Trivandrum—Kerala): Rubber Contraceptives (Condoms)—288 million nos. per annum. (N.U.).

LETTERS OF INTENT

Chemicals

M/s Shakti Insulated Wires Private Ltd, Bansilal Motilal Mansion, 22, Appolo Street, Bombay-1 (BR) (Bombay, Maharashtra): Poly Vinyl Formal and Poly Urethane Types of Wire Enamels—360 tonnes per annum. (N.A.).

Drugs & Pharmaceuticals

M/s Alembic Chemical Works Co. Ltd, Alembic Road, Industrial Area, Baroda-3. (Baroda, Gujarat): Kanamycin—1000 kgs. per annum. (N.A.).

Rubber Goods

M/s National Tannery Co. Ltd, Mercantile Buildings, Lal Bazar Street, Calcutta (Tehsil Poglandanga, Dist. 24 Parganas, West Bengal): Footwear (Western type)—one million pairs per annum. (N.A.).

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

From M/s Ruby Industries, Bombay to M/s Ruby Coach Builders Private Limited, Bombay.

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

M/s Power Cables Private Ltd, Bombay—Lead-in-wires for Electric Lamps; M/s National Spinning and Weaving Mills Ltd, Nirmal, District Adilabad (Andhra Pradesh)—Cotton yarn; M/s Kesoram Industries and Cotton Mills Ltd, Calcutta—Cotton yarn; M/s Raipur Manufacturing Co. Ltd, Ahmedabad—H. T. and L.T. Insulators, and Glazed Tiles; M/s Rajasthan Insulators and Bushings Ltd, Bombay—H.T. and L.T. Insulators including Bushing up to 220 KVA and Electric Porcelain.

During the Week ended September 30, 1967

LICENCES ISSUED

Coal

M/s Central Kooridih Colliery Co. (Central Kooridih Colliery) P.O. Katrasgarh (E. Rly.), Distt. Dhanbad, Bihar. (Katrasgarh, (E. Rly.), Distt. Dhanbad, Bihar): Coal—1,30,000 tonnes.

(i) Grade III—50,000 tons; (ii) Grade II, III-A & Non-grades etc. 80,000 tons. (S.E.).

Mineral Oil

M/s Indian Oil Corpn. Ltd, (Refineries Division), Link House, Bahadur Shah Zafar Marg, New Delhi-1. (Barauni, Bihar): Mineral Turpentine Oil—36,000 tonnes per annum. (N.A.).

Insecticides

M/s Excel Industries Ltd, 184-87, Swami Vivekanand Road, Jogeshwari, Bombay-60 (N.B.). (Jogeshwari, Bombay, Maharashtra): Aluminium Phosphide—150 tonnes per annum. (N.A.).

Cotton Textiles

M/s Eastern Belting & Cotton Mills (P) Ltd, Baidyabati, Dt. Hoogly. (Baidyabati, Distt. Hoogly, W. Bengal): Hair Belting, Cotton Belting & Cotton Hose Pipes—54 tonnes per annum on 10 Powerlooms. (The capacity of the Industrial Undertaking after substantial expansion shall be 162 tons per annum on a total of 30 power looms). (S.E.); M/s General Industrial Society Ltd; 15, India Exchange Place, Calcutta. (Calcutta, W. Bengal): 12,500 spindles for manufacture of cotton yarn. (S.E.).

Malted Foods

M/s Jagatjit Distilling & Allied Industries Ltd, 54, Ring Road, Lajpat Nagar-3, New Delhi-14. (Hamira, Punjab): Annual Capacity After Expansion—Malt Extract 3000 tons. (S.E.).

Flour

M/s Union Flour Mills, Meherpur, Silchar, (Assam). (Meherpur, Silchar, Assam): Wheat Products—12,000 tonnes per annum. (COB).

LETTERS OF INTENT

Metallurgical Industries

M/s Indian Oxygen Ltd, 1, Taratala Road, Calcutta-53. (West Bengal): Continuous Electrodes. (Fusarc Open-Arc type) Up to 600 tonnes per annum. (S.E.).

Electrical Equipment

M/s Philips India Ltd, 53, Jor Bagh, New Delhi-3. (Maharashtra): Sensitive Moving Coil Instruments—23,500 Nos. per annum. (S.E.).

Machine Tools

M/s Oriental Electric & Engg. Co. National Tobacco Building, 1 & 2, Old Court House Corner, Calcutta-1. (Agarpara, Distt. 24-Parganas, West Bengal): (i) Cold Saving Machines (models 16/20 V&H, 22/28 V, 22/28 V&H)—48 Nos. per annum; (ii) Saw Sharpening Machines (size 11/40)—24 Nos. per annum. (N.A.).

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

From M/s Budge Budge Jute Mills Co. Ltd, Calcutta to M/s Delta Jute Mills Co. Ltd, Calcutta. (Unit: Budge Budge Mills) (No. 2); From M/s Cheriot Mills Ltd, Calcutta to M/s Delta Jute Mills Co. Ltd, Calcutta. (Unit: Cheriot Mills).

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

M/s J.K. Steel Ltd, Calcutta—Steel Billets; M/s Textile Machinery Corpn. Ltd, P.O. Belgharia, 24-Parganas—Seamless Iron & Steel Pipes & Tubes; M/s Indian Statistical Institute, Calcutta—Desk Calculators, Card Punches, Card Verifiers, Card Sorters & Tabulators. Licensee: M/s Kishan Lal Nathmal, Adilabad. Undertaking: M/s Venkata Ratnamba Textiles Limited—Cotton Yarn; M/s Usha Spinning & Weaving Mills Ltd, New Delhi—Cotton Waste Blankets; M/s Manjushree Industries Limited, Calcutta—Acrylonitrile & Poly Acrylonitrile; M/s Bombay Fine Worsted Manufacturers, Thana—Rayon—Waste Yarn; M/s Basti Sugar Mills Co. Ltd, Walter Ganj, Distt. Basti, Uttar Pradesh—Sugar; M/s Podar Oates Rubber Industries Ltd, Bombay—Fan Belts & Belts; M/s Hindustan Belting Co. Bangalore—Transmission Belts, Conveyor Belts & P.V.C. Heavy Duty Belts etc.

EASTERN ECONOMIST

NOVEMBER 17, 1967

Guidelines for Advances ...	883
Capital Market Awaiting Revival ...	884
Public Sector Units a Drag on the Economy ...	886
Declining Exports to West Germany ...	887
Budgetary Implications of PL 480 Assistance ...	891
Monetary Impact of PL 480 Transactions ...	893
Economics of Rupee Trade: II —Manubhai Shah ...	901
FROM THE CAPITAL'S CUPBOARD ...	903
Indo-German Economic Collaboration.	
WINDOW ON THE WORLD ...	904
World Plastics Production; West German Capital Market.	
THE MOVING FINGER WRITES ...	907
TRADE WINDS ...	908
Fourth Plan; Colombo Plan; Unsecured Advances; Credit Policy Outlined; Industrial Licensing Policy Inquiry Body; Curb on Gur Advances; Advisory Council for Industries; National Exhibition; Engineering Exports; W. German Help; Farm Finance by Punjab National Bank; Indo-Bulgarian Collaboration; Computer Corporation; Export of Railway Wagons; Import Substitution in Railways; US Foreign Aid Bill; Rice Mills from Japan; Jute Forward Trading; UK Bank Rate Up; Output of Sea Food.	
COMPANY AFFAIRS ...	912
Birla Jute; Philips India; Standard Motor; BT Tools; Cooper Engineering; AEI-GEC; Mysore Cements; Delhi Cloth; Indian Carbon; National Rayon; Indian Hume Pipe; East India Hotels; Citric India.	
CHAIRMAN'S STATEMENT ...	916
The State Trading Corporation of India Ltd.	
RECORDS AND STATISTICS ...	921
Revised Series of National Product.	

ANNUAL SUBSCRIPTION

INLAND: Rs. 70.00

FOREIGN: £26-0-0 or \$17-00

Airmail & Advertisement Rates on Enquiry.

REGISTERED OFFICE:

UCO Bank Building, P. Box 34, Parliament Street, New Delhi-1.

Guidelines for Advances

IT IS possible to view the latest communication of the Reserve Bank of India to scheduled commercial banks as a part of the whole package deal of social control over banks. In fact, however, it is no more than a continuation of the process of formulating guidelines set in motion by the Reserve Bank several months ago. The reaction of share markets in particular to this communication is more a reflection of the highly nervous state that obtains among marketmen today than a correct appraisal by them of the contents of the communication. And this is fully borne out by the trend of trading in private after last week's close of markets. Even so, the Reserve Bank did well to lose no time in clarifying the position to arrest any further possible landslide in equity prices.

Now, the Reserve Bank's communication of November 9, followed the recommendations of the working group appointed by the Governor of the Reserve Bank and headed by Mr B. N. Adarkar, Deputy Governor, to look into the question of definition and classification of unsecured advances, as also the question of evolving suitable norms for advances for commercial banks against shares. The Reserve Bank's object in sending this communication was apparently to inform all scheduled commercial banks that it had accepted the recommendations of the working group, which, by the way, was composed predominantly of bankers.

The communication falls broadly under two heads, one relating to unsecured advances and another relating to advances against shares. In regard to the first, it more or less reiterates the position as conveyed to scheduled commercial banks in May last. Certain types of unsecured advances, as then stated, continue to be excluded from the total of unsecured advances for the purpose of the norms relating to such advances. As a result of the Reserve Bank Governor's acceptance of the recommendations of the working group, these norms acquire greater sanction, and banks should have more, and not less, leeway in the matter of these categories of unsecured advances, of course within the prescribed limits.

The second part of the communication which greatly upset share markets concerns advances against shares, and here, too, it is seen, the position broadly is what it has already been. The guidelines suggested by the working group are, if anything, more helpful, inasmuch as they should enable banks to take a more liberal attitude towards some categories of share advances than they have done or, "they thought they were expected to do, so far", to quote from the press handout. The more important of these are: (i) that commercial banks must satisfy themselves about the marketability of the shares and the net worth position of the company the shares of which are offered as security; (ii) that they should be particularly careful while making advances against shares known to be subject to speculative activity; (iii) that, in all cases, they should insist on adequate margins; (iv) that they should carefully scrutinise the purpose for which an advance against shares is sought and to ensure that the advance is not used for speculative purpose or—this is significant—for enabling the borrower to acquire or retain a controlling interest in the company; (v) that they should exercise particular care in making advances against a large block of shares; and (vi) that, where they do make such advances, they should insist on a suitable schedule of repayment and also obtain, in cases where these advances exceed Rs 5 lakhs, the prior approval of the Reserve Bank for such a repayment schedule.

It should be clear to all, certainly to those who are affected by these guidelines, that what is intended is to rationalise the policy towards advances against shares—and this is one of the purposes for which the Adarkar working group was set up—and not to effect any curtailment of

these advances as such. The Reserve Bank has further clarified that it is far from its intention either to do this or to divert such savings to increase the availability of bank credit for any other purpose, as suggested in certain quarters. In fact, according to the clarification provided by the Reserve Bank in a prompt and understanding response to representations from panicky stockbrokers, Reserve Bank inspectors are to be specially asked to liberalise the permitting of advances against shares in circumstances where such advances are necessary particularly to help production or the establishment of a new enterprise. There is to be no curtailment of advances against shares, whether to sharebrokers or to other parties. Nor is there any directive to banks generally to recall any particular category of advances against shares already made within a specified period. (Press reports that banks have been asked to secure repayment of these advances within two months or a shorter period have been categorically denied by the Reserve Bank.) Even the suggestion for a repayment schedule in respect of long-term or long-standing advances is by no means novel. The only thing new against this particular suggestion is that, in respect of such advances in excess of Rs 5 lakhs, banks should obtain the prior permission of the Reserve Bank. This is presumably in line with a similar insistence that already obtains in respect of loans to any single individual or party in excess of Rs 1 crore.

It is significant that the Reserve Bank has taken care not to upset the working capital requirements or requirements for similar other productive purposes of a company by making it unduly difficult for managing agents to borrow against shares of managed companies.

Capital Market Awaiting Revival

THE PROBLEM of mobilisation of rupee resources had not at any stage during the era of planning assumed such serious proportions as at the present moment. The central and state governments are in two minds about the methods that should be employed for raising additional funds for financing Plan schemes and for meeting increasing non-plan expenditure. In fact, the state governments are unwilling to levy additional taxation as the heavy burden already imposed on the masses has given rise to serious discontent. The newly formed non-Congress governments particularly are anxious to give the impression to the public that their main objective is to improve the lot of the lower-income groups and reduce the burden on the farmer. The concessions relating to land taxes alone might result in the loss of revenues of over Rs 100 crores in a year. But an awkward situation has arisen in the case of many state governments and it is being realised that negative policies alone will not yield the desired results. The West Bengal government has been actually obliged to promulgate an ordinance empowering it to raise fresh resources through higher sales taxes and costlier electricity. Many other state governments will be compelled to follow a similar course if the unrealistic policies pursued

Equally noteworthy is the Reserve Bank's declared concern to preserve the liquidity of advances to individuals against shares.

Sharebrokers should welcome this clarification by the Reserve Bank, in particular the assurance that bank facilities would continue to be made available to them to enable them to obtain finance not only to conduct their operations as intermediaries but also to finance their own holdings of shares to a reasonable extent. Even with regard to their *badla* operations, it is noteworthy, commercial banks have been told that they may continue to grant advances to stockbrokers, albeit within reasonable limits and with adequate margins.

It is thus seen that the entire approach of the Reserve Bank is to make sure that no productive purpose is starved of finance, even as it seems to be its concern to ensure that there is no excessive use of bank finance whether for *badla* business or for heavy speculation. No prudent banker would be opposed to these objectives and we agree that there is no reason for sharebrokers to take an alarmist view. If any alarmist view is to be taken, it is in regard to the supposed necessity for spelling out these guidelines in such detail as though commercial banks have not been aware of them or their desirability. No banker worth his name and salt would regard as sound banking policy any deviation from these guidelines even normally, the more so today by reason of the prevailing uncertainties, economic as well as political. Perhaps the justification—or is it provocation?—is that the political atmosphere today is so much surcharged with the social-control-over-banks slogan.

by them are not abandoned and serious efforts are not made to make effective use of available resources.

Under these circumstances, it is being asked how Plan schemes will be implemented and what would be done to combat the recessionary trends. Unfortunately, with the preoccupation of the state governments with less important problems, the necessity to revive economic activity through the adoption of bold measures has not been adequately realised. The central government is no doubt keenly aware of the deterioration that has taken place in the economic situation in the past two years but is lacking the courage to formulate new policies and make the best use of newly created manufacturing facilities. The Deputy Prime Minister, Mr Morarji Desai, and the Deputy Chairman of the Planning Commission, Dr Gadgil, are of the view that the improvement in the agricultural situation would bring about stability to the economy by the middle of next year and it will be possible to formulate new Plan schemes on a defined and integrated basis which can be implemented from 1969. Mr Morarji Desai has been repeatedly stating that deficit financing should not be incurred at any stage and there should be stricter finan-

cial discipline so that the state governments can avoid recourse to overdraft from the Reserve Bank.

It will be generally agreed that deficit financing for meeting non-plan expenditure should be prevented and due to political considerations there is unwillingness to impose fresh taxation on the agricultural income groups which are now benefiting to a greater extent than before through the new emphasis for increasing agricultural production. But there is no reason why deficit financing cannot be resorted to for productive purposes and a fresh scheme evolved on a foolproof basis, which will empower the Reserve Bank to create currency for approved purposes. The union Minister for Industrial Development, Mr Fakhruddin Ali Ahmed, has actually stated that there will have to be resort to deficit financing if the expansion schemes of the public sector undertakings have to be implemented.

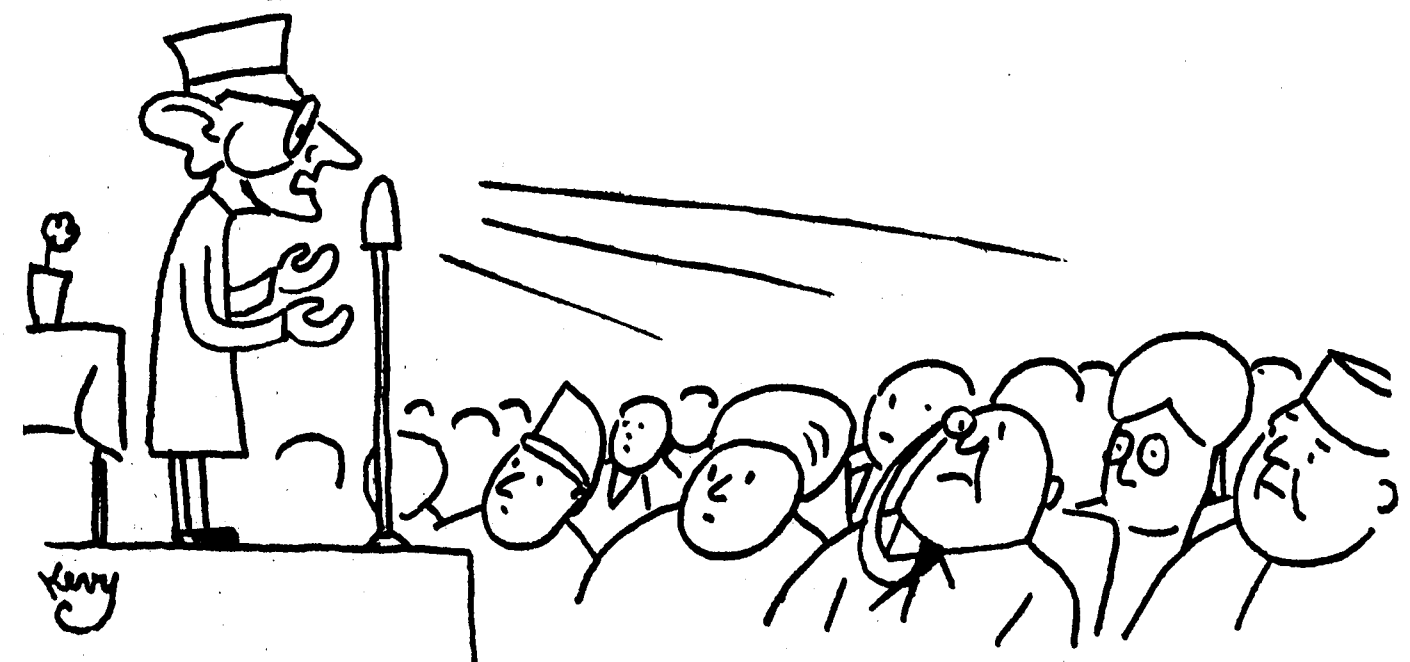
This is indicative of a difference in thinking even within the union cabinet about the manner in which the process of economic development should be continued during a transition period. It has also been emphasised by Mr C. A. Pitts, President of the Associated Chambers of Commerce and Industry, and others that there should be limited deficit financing for giving an immediate push to the economy and that the new forces released by an improved agricultural situation cannot bring about a quick revival in industrial activity.

What is really needed in the present context is a policy which will enable developmental expenditure to be incurred on a large scale in strategic directions and which will improve the climate in the capital market

for helping the private sector to implement its projects. The view held by Mr Fakhruddin Ali Ahmed that there should be no difficulty for private enterprises to raise the required funds because of a higher level of agricultural incomes will be justified only if there is an organised effort to tap new savings and employ them for the promotion of new industries. Unfortunately, the profitability of working of even consumer goods industries is so unattractive that there is no desire to invest savings in industrial securities. With the continuing recession in engineering industries and the depression in the capital market, the central government cannot remain passive and wait for a favourable turn of events by the middle of next year. Mr Morarji Desai should examine the possibility of streamlining the tax structure during the winter session of Parliament with a view to restoring confidence in the stock markets and encouraging investment in industrial securities. He should at the same time indicate clearly that deficit financing will be incurred for productive purposes subject to the necessary safeguards, and there will be no slackening in demand for durable and semi-durable goods on account of reduced plan expenditure. It will not be incorrect to proceed on these lines as there is the prospect of easier availability of agricultural commodities and a lowering of prices of essential articles of consumption.

That there is need for an entirely new approach to our economic problems is also indicated by the failure of the liberal import policy to yield the desired results. Even though there has been no difficulty in importing raw materials and components, the anticipated recovery

BOMBAY, Nov 9 — The Deputy Prime Minister, Mr Morarji Desai, told bankers here today that they should initiate the process of social control without waiting for the Government to pass the necessary legislation which would be brought before the winter session of Parliament.



"Don't think we will implement our own resolution. We leave it to YOU".

in industrial production has not materialised. Indeed, it has been complained in some quarters that the process of import substitution has been retarded by the liberal issue of licences and the government should be more careful when permitting larger imports. The difficulty in absorbing non-project aid is obviously due to the low level of economic activity within the country and the excessive dependence on demand from government departments for absorbing an increasing volume of production. The necessary momentum can be regained only if the conditions that prevailed during the boom in new flotations in 1958-62 can be restored. While it is true that the central and state governments are

Public Sector Units a Drag on the Economy

EVERY EVALUATION of the public sector undertakings during the last few years has reached more or less the same conclusion that investment in them was allowed to be increased without improving their pattern of planning, construction and working. The shortcomings noted in the units which were set up during the initial years of growth of the public sector did not make the government any wiser, and the same mistakes were often repeated in the units which were established later. The criticism of the working of these units was mostly ignored as it was made out that it was an act of vilification against the progress of socialism in this country. Even when certain serious flaws were pointed out by such impartial bodies as the Public Accounts Committee, the tendency of the government was to excuse the public sector units by stating that norms of the private sector could not be applied to them. The evaluation of the public sector undertakings made recently by the Administrative Reforms Commission (ARC) is, however, more outspoken than any of the earlier assessments by other organisations. It has presented a broad outline of the working of these units, explaining the distressing account of their financial and physical performance.

The public sector undertakings have made little profit over the years and there is no sign of their showing any improvement in this regard. The ARC report reveals that of the 40 running concerns, eight incurred losses during 1965-66 and the remaining ones showed small profits; the total net profit of these 40 concerns added up to the paltry sum of Rs 9.6 crores as against Rs 18.8 crores in 1964-65. Even Hindustan Steel, with its three units in operation for the last few years, recorded a fall in profits from Rs 2.1 crores in 1964-65 to Rs 1.70 crores during 1965-66. The return on capital employed in these undertakings is less than one per cent, which is pitifully low by any standard.

The public sector undertakings have given little satisfaction even in regard to the quality of their products and selling prices. There are several instances of their failure on both these counts. Many kinds of special steels are still imported because the public sector steel

experiencing a serious shortage of financial resources and cannot afford to shed tax revenues, the economy can be revitalised only if there is a bold rationalisation of the tax structure, as was attempted by the late US President Kennedy some years back, and there is a 'new deal' conceived on the lines adopted by Roosevelt in the early 'thirties. If the imbalances in the industrial structure were rectified and there is continued emphasis on raising agricultural production, it will be possible to achieve a higher rate of economic growth in the coming years without heavy dependence on foreign aid. Will the planners have the necessary courage to meet the challenge posed by the new problems?

plants have yet to achieve the required quality of manufacture. In the case of such basic products as steel and fertilisers, prices have not been maintained at reasonable levels. With the increase in steel prices recently, domestic prices as compared to those prevailing in other countries are higher by about 25 to 30 per cent. The situation is worse in the case of fertilisers, where the farmers have to pay nearly 75 to 100 per cent more than the international prices. "Whatever may be the special and compelling reasons for these high prices in India", states the ARC report, "it is unfortunate that the Indian farmer, about the poorest in the world, is required to pay for his fertilisers prices which are about the highest in the world".

By and large, the public sector undertakings have suffered in their operations on account of three main reasons. The primary reason is the failure in planning, followed by over-capitalisation and inefficiency of top management. The ARC report has stated in plain words that several projects were executed on the basis of incomplete plans and estimates. There were many instances of lack of detailed analysis of the likely scope and pattern of product mix. A competent estimate of demand for the products was also lacking in many cases. Many of the units were established without assessing profitability as well as economic benefits. One glaring instance of faulty planning is the surgical instruments plant of the Drugs and Pharmaceuticals Ltd in which case the estimates of end-products have no relation to domestic demand.

A serious failing of these projects is over-capitalisation. Capital expenditure has been avoidably high in many projects such as the Heavy Electricals at Bhopal, the steel plants of Hindustan Steel, and some of the fertiliser units, particularly the one at Trombay. Moreover, the expansion programmes were forced upon some projects before they achieved their initial full production so that no time was allowed to learn about the profitability of initial investment. In many projects, expenditure was excessive on townships, bungalows for executives, guest houses and administra-

tive buildings. Also little attention was paid to material management and investment in most of the units was unjustifiably high.

Perhaps the most glaring drawback of the public sector has been its inability to develop resources of managerial and technical personnel and its continued dependence on bureaucratic deputationists and foreign technicians. The success or failure of an enterprise is directly related to the quality and effectiveness of the top management. High posts are filled most often by the ICS officers who do not identify their personal fatigue with the projects because they belong somewhere else and come over as 'birds of passage'. Then, the turnover at the top has been considerably fast and continuity is absent in the management of many projects. At several places top posts remain vacant for long periods of time. The ARC report has stressed that the top management consisting primarily of 'policy-making' type of governing boards is largely unable to give sustained and positive directions to persons at the operating level. This is so because there is too much of official representation and too little technical talent on the governing boards.

The ARC report has made three major recommendations for the improvement of the working of public sector projects. In the first place, it has suggested the establishment of sector corporations to run multi-unit undertakings so as to achieve co-ordination among the units operating in the same field. The corporations will try to avoid the fragmentation of industrial effort in the public sector. The report has also suggested that each

Declining Exports to West Germany

THE ANNUAL report of the Indo-German Chamber of Commerce for 1966-67 is of considerable interest and importance not merely to its 550 members (320 resident and 230 non-resident) but also to the governments and the public of both the countries. The report covers the recent trends in trade and aid and frankly comments on certain disturbing aspects of our economy. It says that the general standard of living of our masses has worsened over the last three years and points out that while (taking 1958 as the base year) what one could purchase in West Germany in 1958 for DM 100 was available in 1966 for DM 122, in this country one had to pay in 1966 Rs 160 for what was available in 1958 for Rs 100. The consumer prices in this country, according to the chamber, increased by an average of 20 per cent between the last quarter of 1966 and the middle of 1967; and without the generous food aid given by the USA, which exceeded 10 million tons in 1966 and may be only a little less than that this year, "starvation and under-nourishment" would have attained "unbelievable magnitude".

The views of the chamber on the trends in Indo-German trade are hardly complimentary to the Govern-

operational unit should be vested with powers necessary for its functioning with speed and efficiency. Secondly, the ARC considers that it is essential to take a long-term view of the requirements and problems of different sectors of public enterprises. In this connection, it has stated that management institutions be developed in different sectors of industry to take care of their promotional and developmental needs. Public undertakings have been advised to prepare comprehensive budgets to cover the estimates of production, sales and profits as well as costs of manpower, townships, research and development. It has been suggested that material management should be accorded recognition. Lastly, the ARC has emphasised that nationalisation or socialisation could not mean bureaucratisation. A survey of additional requirements for managerial and technical manpower has been recommended.

All these suggestions of the ARC can prove meaningful only if the public sector projects are conceived and operated strictly on the basis of economic viability and industrial efficiency. The managements of these projects should not consider themselves as government departments and promotions and rewards in these units should be related to performance. This is all the more essential because the total investment in the central government undertakings has assumed the high level of Rs 3,000 crores and investment in the undertakings run by the state governments is also substantial. The performance of the public sector units is bound to influence the climate of the economy. The introduction of the elements of profit motive and efficiency is likely to result in large surpluses for the central exchequer.

ment of India. For many years this country has been having a chronic deficit of the order of Rs 100 crores a year in its trade with West Germany and there is no indication of this trend being reversed in the near future. Our country, of course, will continue to depend rather heavily on West Germany for its requirements of machinery and materials but what causes concern is our inability to improve exports to that country which is our best customer in the Common Market. West German imports from our country declined in 1966 and continued to fall in the first quarter of 1967. Though such factors as the dislocation caused by devaluation of the rupee and the Suez crisis contributed to this decline, it appears that our incapacity to supply quality goods at competitive prices has been largely responsible for our poor export performance. West German firms have always preferred to buy a large part of their requirements from this country via third countries; and this trend became more pronounced in the first half of 1967, as will be seen from the table given on page 888.

Why does West Germany resort to indirect imports from our country? The reason is, according to the Indo-German Chamber of Commerce, that "German firms find

it worthwhile to pay even a little more to established trading houses and be assured of quality than be landed with sub-standard goods". Our Commerce Ministry should carefully enquire into this matter and identify the commodities in respect of which Bonn has complained about quality. After all, our exports to West Germany are confined to a few items—oil-cakes, coffee, tea, skins, mineral ores, leather, seeds and textiles; and it should not be difficult for the Government of India to find out the real causes for the increasing trend in indirect imports and to encourage more direct trade.

(Million DM)

	1965	1966	1967 Jan.-June
W. German imports from India			
Direct	146.5	153.7	58.6
Indirect	97.5	85.5	45.6
Total	244.0	239.2	104.2
W. German exports to India			
Direct	962.4	825.1	346.4
Indirect	86.9	126.2	67.2
Total	1,049.3	951.2	413.6

Total West German imports have been increasing and, under the Kennedy Round, the import duties have been cut on many goods such as tea, cashew kernels, essential oils and leather footwear. The report of the chamber refers to the lack of knowledge of the German market on the part of our exporters and it suggests that visits and personal contacts, appointment of experienced agents, participation in German trade fairs and exhibitions, dynamic follow-up and opening of branch offices abroad will prove beneficial. But all this will be possible only if the Government of India releases adequate foreign exchange for our businessmen. A niggardly policy in this regard will hardly help the country to save or earn additional foreign exchange. It is worth noting in this connection that West Germany's spectacular success in export promotion has been largely due to the policy of liberal release of foreign exchange for business tours even when the financial position was far from comfortable. As a report of the National Productivity Council pointed out some time ago, "even during the early post-war period when Germany suffered from an acute foreign exchange problem, the government authorised liberal releases of foreign exchange to facilitate visits of businessmen to foreign countries; indeed, in some circles, the opinion was expressed that this was perhaps the most important single measure that helped to rehabilitate Germany's export trade after the war since it enabled her merchants to forge anew their connections with foreign customers, connections which had been disrupted but not destroyed during the war".

The chamber's report, however, does not refer to the non-tariff barriers that hinder our exports. It may be that quota restrictions exist only on a few textile items. But it seems that the levy of high internal taxes on coffee and tea does act as a disincentive to increased ex-

ports. The report says that the largest single item of West German imports consists of products of agriculture, forestry and fishery while the second biggest single item is represented by products of the food-processing industries abroad. It is therefore suggested that it will pay this country to concentrate on this sector, that is, not the basic foodstuffs but the more sophisticated varieties such as frog legs. While we should try to diversify our exports, it is equally important to ensure that the earnings from the traditional exports not only do not decline but steadily increase. This should not be difficult if the export promotion councils and commodity boards show more energy and initiative in tackling the German market.

The report also highlights the aid in various forms given by West Germany to this country. It says that West Germany is second only to the USA among the western countries assisting us. About 30 per cent of the total West German financial assistance and 10 per cent of all West German technical assistance is received by this country. Till the end of 1966, total West German technical assistance was DM 133.3 million in the form of grants, financial assistance accounted for DM 3,582.6 million, and suppliers credits for DM 326 million. Out of West Germany's private investments in the world totalling DM 10,413 million on March 31, 1967, Asia absorbed DM 360 million out of which "the lion's share" was of this country amounting to DM 140.2 million. The report indicates that more firms are likely to invest in our country, with the streamlining of licensing procedures, simplification of various forms, and a clear-cut policy in regard to financial collaboration. It is therefore up to the Government of India to create such conditions as will facilitate effective economic co-operation in trade between the two countries.

Eastern Economist 20 Years Ago
NOVEMBER 21, 1947

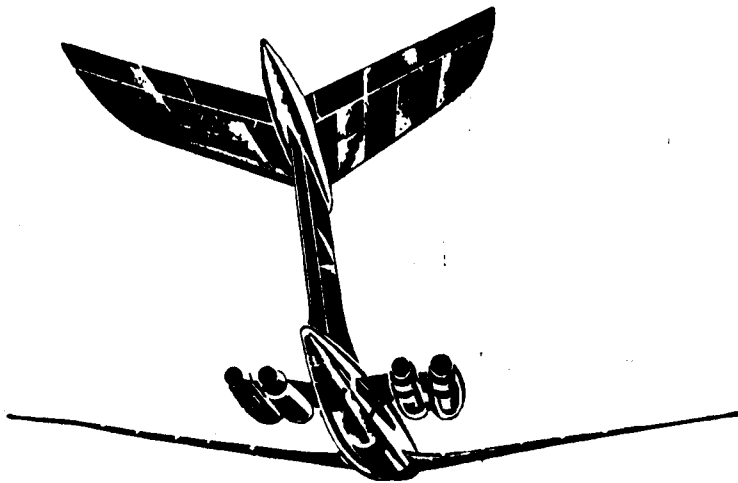
The main outlines of the existing price situation, as stated in last week's article, have received confirmation in the report of the Commodities Prices Board on the prices of rabi grains and pulses, which has been recently released. This report is not confined merely to the narrow problem of the level of some particular prices. The Board has recommended that Government should begin operating on the internal price level as soon as possible, so that Indian prices will be brought into relation with external prices within two or three years. What are the essentials of a price policy which will secure something like this result? This question leads to another. How far is ours merely a monetary problem? The existing situation is somewhat out of the ordinary. Notes in circulation have steadily declined. Scheduled banks' returns show that bills discounted have been consistently lower than in corresponding weeks last year. Scheduled banks' advances on the other hand have generally been higher than last year, but since July 1947, the total of scheduled banks' deposits has declined in the sense that it has consistently been lower than in the corresponding weeks 12 months back.

monkeys?

Send them
by BOAC

It's the swinging way to go!

Monkeys like to move fast.
And they've a head for heights. So freighting them by BOAC makes sense—and good economics, too. When you next have a client with a freight problem, tell him to contact our Cargo office.



ALL OVER THE WORLD BOAC TAKES GOOD CARE OF YOUR CLIENTS

BOAC

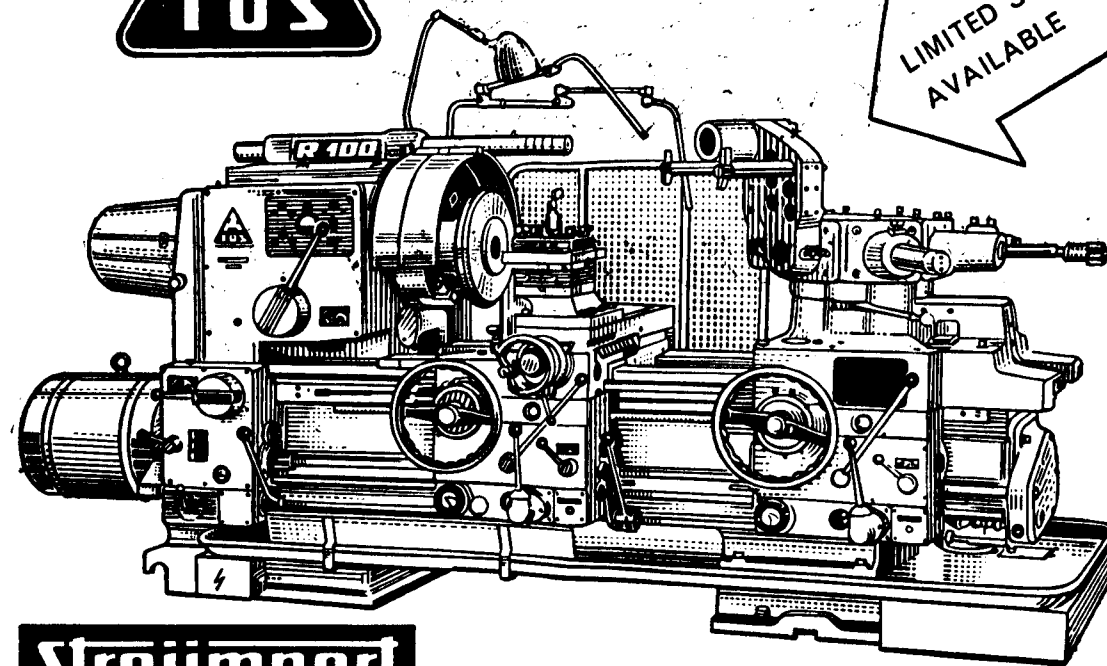
BRITISH OVERSEAS AIRWAYS CORPORATION
IN ASSOCIATION WITH AIR-INDIA AND QANTAS

In demand, more than ever



CAPSTAN LATHES

LIMITED STOCKS
AVAILABLE



Strojimport

PRAHA-CZECHOSLOVAKIA

Easy-to-operate, TOS Capstan lathes are designed to provide selection of the optimum cutting conditions for each individual operation... reduce operator fatigue... increase productivity. They are well suited for prototype as well as repetitive production of semi-heavy and heavy parts, and for machining large or intricately-shaped components.

AVAILABLE IN THREE CAPACITIES

	Model R 80	Model R 100	Model R 125
Bar capacity	80 mm	100 mm	125 mm
Swing over bed...	760 mm	760 mm	900 mm

For further details, please contact:

BATLIBOI

& COMPANY
PRIVATE
LTD.



participants in
planned progress

Forbes Street, Bombay 1.

Branches • Associates • Agencies — ALL OVER INDIA

Budgetary Implications of PL 480 Assistance

THIS PAPER attempts to analyse the effect of PL 480 transactions at the various stages of the operation.

The first stage is the import of commodities (foodgrains) and payment of these in rupees to the United States authorities. Since the money received by the United States authorities in payment for foodgrains is simultaneously invested by them in special securities, the transactions up to this stage have no real or monetary effect on the economy. All that happens is that a debit is made for payment for foodgrains in one part of the budget and a credit is taken for the receipt from the sale of special securities in another part of the budget.

The real effect on the economy occurs when food is sold to the public and the government collects money from the public. All other things remaining the same, the sale of foodgrains to the public has a deflationary effect.

The money realised from the sale of foodgrains is credited to the budget and is available for expenditure. In this sense, therefore, import of foodgrains under PL 480 provides genuine budgetary support. If a part of the foodgrains obtained under PL 480 is utilised to add to stocks or is sold at prices lower than the purchase price, budgetary support would be reduced to that extent. But this is also fully reflected in the budget.

The Next Stage

The next stage of the transaction is the transfer of rupees held in special securities by the US authorities to the Government of India in the form of a loan or a grant or to the private sector in the form of the so-called Cooley loans or to itself for meeting its embassy expenditure. In all these cases, the budget will show an expenditure for redemption of debt to the extent that rupee securities held by the US are reduced for this purpose. All that happens is that the government retires special securities in an amount equal to the expenditure out of counterpart funds by the US authorities, whether for loan to the government, loan to private sector or for the embassy's own use. Where the loan or the grant is given to the government, the budget will show a receipt cancelling the expenditure on redemption of securities; and the actual expenditure on items for which the loan or grant is given will also be separately shown as expenditure as it takes place. In the case of counterpart funds transferred to the private sector or for US embassy uses, there would be no corresponding receipt in the budget, but the effect of such expenditure on the economy will be fully reflected in the budget by way of the expenditure shown for redemption of the securities held by the US. The net effect of PL 480 transactions is thus already taken into account in striking the balance of the government's total transactions, so that the deficit in the budget, if there is one, is what it is after allowing for all these transactions and there is no further adjustment to be made to the figure of deficit as given in the budget for a particular year.

The point is that all the transactions arising from the import of PL 480 foodgrains pass through the budget, and this is true even when the transactions relate to the private sector or to the US embassy's own expenditure. Thus, the effect of the government's budget either on the expansion of money or generally on the economy has to be judged by reference to the budgetary and monetary picture presented to Parliament without any further adjustment.

The following paragraphs indicate the different stages involved in the recording of PL 480 transactions in the budget:

(i) In the first instance, import of PL 480 foodgrains is treated like any other purchase. Thus as soon as foodgrains are shipped by India Supply Mission (ISM) under agreement for import of surplus agricultural commodities, payments are made to the US government by debiting capital head "124-capital outlay on schemes of government trading—scheme for purchase of foodgrains". Simultaneously, the Reserve Bank of India, under standing instructions from the US disbursing officer, invests the rupee receipts from sales of foodgrains to the

This paper was read at the recent seminar on "The Monetary Impact of PL 480 Finance" and was prepared jointly by Messrs A. R. Shirali, R. I. Gulhati, M. R. Shroff, K. C. Sharma, and B. N. Kapre—all of the Ministry of Finance, Government of India. The views expressed represent the personal views of the authors and not those of the Ministry of Finance.

Government of India in special non-negotiable securities of the Government of India. These securities carry interest at 1½ per cent per annum and are repayable on demand. The amounts invested in these special securities are credited to the public account under "Unfunded debt—special loans—investment of deposits of US government counterpart funds". In other words, money paid by the government for the purchase of foodgrains simultaneously comes back to it in the form of investment in special securities and up to this stage there is no effect on the government's budgetary position. The transaction is on par

PL 480 TRANSACTIONS AS RECORDED IN THE BUDGET

Head of Account	Receipts	Expenditures
I. Capital head 124-capital outlay on schemes of government trading—scheme for purchase of foodgrains	100(5)	100(1)
II. Unfunded debt-special loans-investment of deposits of US government counterpart funds	100(1)	20(5)
III. Public debt-debt raised outside India-PL 480 loans	60(2)	80(2)
IV. Revenue receipt head LX-extraordinary receipts-grants from US government for development programme	20(2)	
V. Capital head 128-transfer of development assistance from the Government of the USA		60(3)
VI. Revenue expenditure head 77-extraordinary charges		20(3)
VII. Special development fund "Fund from assistance under PL 480"	80(3)	80(4)
VIII. Expenditures:		
i) Revenue expenditure head 74-grants-in-aid to state and union territory governments	10(4)*	10(5)
ii) Revenue expenditure head 28-education	10(4)*	10(5)
iii) Loans & advances by the central government	60(4)*	60(5)

Note: The above table presents a simplified picture of PL 480 transactions and involves the following assumptions:

- Assumes that 60 per cent of counterpart funds are earmarked for loans, 20 per cent for grants and 20 per cent for US government for their own use and for giving Cooley loans.
- Assumes absence of subsidies and stockpiling.
- Rules out non-utilisation by the US government of their share of counterpart funds.
- Ignores transactions arising from repayment of PL 480/TCM/DLF loans, interest thereon, etc.

* These are transfers from the SDF. In the case of (i) and (ii), credit is taken as recovery under relevant head of expenditure, and in the case of (iii) i.e., loans, credit is taken under "Miscellaneous government account".

Figures in bracket indicate the stages in the recording of PL 480 transactions.

with the purchase of foodgrains from any trader who invests subsequently his sale proceeds in government securities.

(ii) The next sequence is the sale of foodgrains on the one hand and utilisation of the funds invested in the special securities on the other. The sale proceeds of foodgrains are credited as recoveries under the aforesaid capital head "124-capital outlay on schemes of government trading—scheme for purchase of foodgrains". These recoveries represent genuine receipts by the government. In the financial statement, transactions under this capital head appear on a net basis so that the debit entry on account of payments to the US government is offset by the credit entry on account of sale proceeds; a negative entry, if any, would be indicative of either stockpiling or losses on trading in foodgrains and similarly a positive entry, if any, would indicate either liquidation of stock or realisation of profits on sale of foodgrains. Details are given in the Explanatory Memorandum.

(iii) In the case of counterpart funds invested in special securities, a major portion is earmarked for loans and grants to the Government of India for financing mutually agreed projects of economic development. The balance is retained by the US government for its own use in India and for giving Cooley loans to joint Indo-US enterprises. As soon as a project agreement is signed, the Reserve Bank, under instructions from the US disbursing officer, liquidates the special securities and makes the proceeds available to the Government of India either as loan or grant. Besides, these special securities are also liquidated from time to time for meeting the US embassy's own use and for advancing Cooley loans. While the disinvestment for the purpose of US embassy's own use and for giving Cooley loans represents genuine expenditure, the disinvestment of securities in order to provide loans and grants to government represents transactions of a purely book-keeping nature. The discharge of special securities is debited to public account under "Unfunded debt" and corresponding credit entries are made under "Public debt—debt raised outside India—PL 480 loans" in respect of loans, and "Extraordinary receipts—grants from the USA for development programme" in respect of grants. These entries are purely of an accounting nature and have no effect on the budget.

(iv) Similarly, the routing of these loans and grants through the Special Development Fund (SDF) is notional, the

purpose of the SDF being to display at one place the loan proceeds from sales of commodities. The funds are transferred to the SDF in the public account by debiting capital head "128-transfer of development assistance from the government of USA" in respect of loans and revenue head "77-extraordinary charges" in respect of grants*. These are transferred back when actual expenditures have to be incurred. The point is that these are self-cancelling double entries.

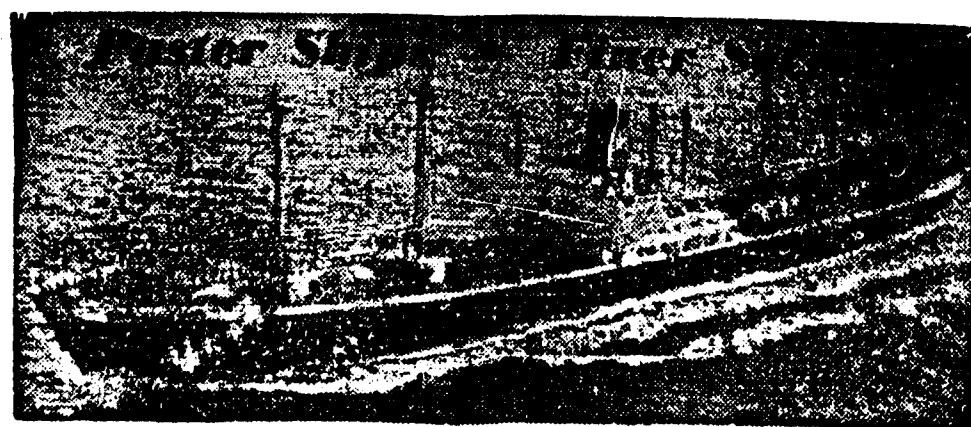
(v) The actual cash outgo takes place when the government incurs either direct expenditure whether on its revenue or capital account, or gives grants-in-aid or loans to state governments and other parties. The expenditure in all cases is debited to appropriate heads of account; for example, the expenditure on educational project is debited to the head "28—education", grants-in-aid given for education, to "74-grants-in-aid to state and union territory governments", and loans given for an educational project to "P-loans and advances by the central government".

(vi) In the case of funds utilised by the US government either for the embassy's use or for giving Cooley loans these involve cash outgo and are debited under "Unfunded debt—investment of deposits of US government counterpart funds".

(vii) The repayment of PL 480-TCM-DLF loans, interest thereon as well as interest accrued on special securities are also credited to the US account. Similarly, the repayments of Cooley loans and interest thereon are also credited to that account. These payments by the government and their investment in special securities are made by debiting "Public debt" in the case of repayment of principal and interest appropriation in the revenue budget in the case of interest.

It will thus be noted that PL 480 transactions appear in an equal number of times on both the receipts and expenditure sides of the budget. Some of these entries are of a book-keeping nature, that is to say, are self-cancelling double entries. There are only two transactions which are genuine in the sense that these involve cash movement. Thus receipts become available to the government when the sale proceeds of foodgrains are realised and cash outgo takes place when expenditures are incurred either by the Government of India on agreed projects or by the US government for its own use or for Cooley loans.

* Since 1966-67, grants due to the Government of India are being set apart for meeting the local costs of US experts and consequently, these grants are no longer transferred to the SDF.



Our fleet of seventeen modern freighters offers fast, regular and dependable service between

INDIA—U. K. & THE CONTINENT • INDIA/EAST PAKISTAN—SOUTH AMERICA
INDIA—BLACK SEA & EASTERN MEDITERRANEAN PORTS
INDIA—POLAND Also around the INDIAN COAST

INDIA STEAMSHIP CO., LTD.

"INDIA STEAMSHIP HOUSE", 21, OLD COURT HOUSE STREET, CALCUTTA-1

Managing Agents: — LIONEL EDWARDS LTD.

Monetary Impact of PL 480 Transactions

THE NET cumulative impact of the various PL 480 transactions taken together on money supply was discussed by V. V. Bhatt and D. R. Khatkhate in the article, "Effects of the United States Commodity Assistance to India on Money Supply" which appeared in the Reserve Bank of India Bulletin, January 1963. The result of this investigation was that the net cumulative impact of all PL 480 transactions on money supply would be neutral, excepting in situations, where the government sold food at subsidised prices to the public/or built food stocks out of PL 480 food imports. A brief summary of the argument of this paper is as follows:

(i) When the Government of India purchases commodities under PL 480, the financial arrangements are such that money supply with the public (by which term is meant all entities except the government and the banking system) neither increases nor decreases. The Government of India acquires the foodgrains and the US government a special type of Government of India debt called special securities.

(ii) When the Government of India sells the commodities to the public, money supply with the public contracts. This contraction of money supply is reflected in the reduction of "net bank credit to government" which represents the lending by the banking system i.e. the Reserve Bank of India (RBI) and the commercial banks to the Government of India and the state governments net of the deposits of these governments with the RBI and the banking system. If the whole of the imports are sold off then the contraction in money supply with the public will be equal to the value of the imported commodities sold less the subsidy, if any, borne by the government. If only a part is sold the contraction will be equal to the value of the part sold less the subsidy on it, if any.

(iii) When the special securities are liquidated and the funds allocated to specific projects are spent the impact on money supply is expansionary*. This would offset the contractionary impact mentioned in (ii). The magnitudes of the two, however, need not be the same. If the government subsidised the PL 480 commodity sales or retained some part as stocks the realisations from sales and therefore the contractionary effect on money supply would be less than the USA's holding in the form of special securities. So that when the special securities relating to these imports are liquidated, the expansionary effect could exceed the contraction leading to a net expansion. Conversely—though this was not specifically mentioned in the article—to the extent the liquidation of special securities is smaller than the realisations from the sales of PL 480 commodities, there would be a net contractionary impact on money supply with the public.

However, in his paper on "PL 480 Finance", Prof. Shenoy reiterates his thesis that financing of PL 480 transactions has led to deficit financing on a large scale by the government. The essentials of his argument have been given in the following paragraphs: "..... When the Government of India uses the US embassy subscription to special securities to finance capital budget disbursements, it issues into circulation, in effect, the sale proceeds of PL 480 imports. The disbursements are non-inflationary as they would be but returning back into the hands of the public the moneys acquired against the sales of PL 480 imports. But when special securities hitherto held by the US embassy are "retired", i.e. passed on to the Reserve Bank for liquid funds, this second operation

* It is, however, not absolutely essential that the special securities be first liquidated and only then the funds spent on projects. The latter can happen first.

This paper was read at the recent seminar held in New Delhi under the auspices of the Economic Research Centre. It was prepared by Messrs V. G. Pendharkar, V. V. Bhatt and D. R. Khatkhate of the Reserve Bank of India. The views expressed are the personal views of the authors and not those of the Reserve Bank of India.

Prof. Shenoy's article to which reference has been made in this paper, appeared in the supplement, along with our issue of November 10, 1967.

becomes a case of deficit financing, as created Reserve Bank moneys now get issued into circulation on top of the already disbursed sales proceeds of PL 480 imports. The crucial and conclusive evidence of the presence of deficit financing is in acquisition of government debt by the Reserve Bank or commercial banks".

"A distinguishing feature of PL 480 financial operation is that PL 480 imports give rise to two distinct and separate counterpart funds. Created moneys, i.e. payments for PL 480 imports invested in special securities, represent what we may call the US-owned counterpart fund, as it constitutes the exclusive property of the US government. The sale proceeds to the public of PL 480 imports, the exclusive property of the Government of India, represent the second counterpart fund..."

"Disbursements from the US-owned counterpart funds are inflationary as this fund is built from created moneys. Disbursements from the Indian-owned counterpart funds, like that from the Marshall Aid Counterpart Funds, are non-inflationary as these funds constitute but the sale proceeds of imports, not central bank borrowings....."

The Distinction

In other parts of the paper Prof. Shenoy has made a distinction between what he calls "PL 480 generated public debt with the Reserve Bank and the total PL 480 generated government debt". In his terminology PL 480 generated public debt with the Reserve Bank of India is equivalent to the liquidation of special securities. He calls this PL 480 deficit financing and has worked it out as a percentage of the total deficit finance of the government. In the paragraphs quoted above the same line of argument is carried further to distinguish between what Prof. Shenoy calls "the Indian-owned counterpart funds and the US-owned counterpart funds". The former consists of imports under PL 480 while the latter is equal to the value of imports held in the form of special securities as also credits in respect of interest and amortisation payments on the PL 480 as well as other similar debt owed by the government to the USA. Thus, according to his treatment, the same imports apparently give rise to two sets of expenditures: one under the so-called Indian-owned counterpart funds and the other under the so-called US-owned counterpart funds. The second set of expenditures is regarded by Prof. Shenoy as inflationary and indeed he suggests that the unutilised portion in the so-called US-owned counterpart funds should be "frozen forthwith in order to extinguish a potential source of inflation".

This is in sharp contradiction to the conclusion stated earlier that the monetary impact of all PL 480 transactions should be neutral except where subsidies are borne by the government or stocks of PL 480 commodities built when it would be expansionary to the extent of such activities. It is important, therefore, to analyse the matter further particularly in view of Prof. Shenoy's recommendation referred to above. The analysis can be made either by looking at the real content of the matter or at the financial transactions that take place in the process. Obviously, the two must yield identical results. In his paper Prof. Shenoy has presented a financial model of these

transactions (Table III) to "portray.....the mechanics of PL 480 financial operations". This table is followed by the next one in which the actual budget statistics are fitted into the model to "throw into relief the key role of the retirement of special securities in the monetary impact of PL 480 financialoperations" It is, therefore, of special interest to examine this model closely.

The real side of the picture can be stated in fairly simple terms as follows. The imports of these commodities which are either consumer goods such as foodgrains and milk powder or industrial raw materials such as raw cotton, soyabean oil etc. go to augment Indian resources. Since, however, they are external assistance to the government, which qua government does not require the resources in that form, it sells them and draws off purchasing power from the public to finance its investment in fixed and social capital.

As regards the financial side, the payment to the USA for these imports is made initially in the form of a special type of debt obligation of the Government of India called special securities. Later, a part of this debt is converted into another type of debt (PL 480 loans), a part is cancelled (PL 480 grants) and the balance becomes available to the USA. The actual mechanics involved are: (a) a payment by the government to the USA for liquidating the securities and (b) a return payment by the USA to the government to the extent of the corresponding PL 480 loans and grants. In making (a) there is an increase in net bank credit to the government and in (b) there is a reduction of it when the government in turn receives the payment from the USA. Thus, these loans and grants are in the nature of final book adjustments. The PL 480 loans and grants do not provide any additional resources and therefore do not lead to any additional expenditure. The special securities are in essence "suspense" items in the government's book-keeping. They are liquidated so as to make final allocations of the PL 480 funds originating from the commodity imports. As far as these allocations are concerned, the practice is to first charge the project expenditures to normal expenditure heads and then adjust them against the Special Development Fund to which the PL 480 loans and grants are transferred. The portion for use by the USA causes a draft on India's resources inasmuch as it results in either a sale of goods and services to the USA or to those countries in which the USA finances its expenditures by means of Indian rupees.

Interest and Amortisation

To bring this simplified analysis closer to reality we have to discuss the effects of such matters as subsidies on the sales of commodities, stock building out of PL 480 imports, freight, insurance and other costs incidental to making the imports, interest and amortisation payments and, last but not the least, important, the effects of the various transactions not taking place in a fairly close interval of time. Of these, we shall discuss the last two viz. interest and amortisation payments and the effects of timing differences in some detail. As regards the others, the position briefly is that subsidies and stock building result in the government realising less from sales out of a given quantum of PL 480 imports than the debt it owes to the USA for that quantum. Since the total of (a) the expenditure on projects and (b) the US uses to be financed by this quantum is equal to the value of imports while sales realisations are smaller, there would be an expansionary impact on money supply corresponding to the difference between the two. The payment of freight, insurance etc. charges by India though it increases the rupee cost of the imports is not relevant from the point of view of the transactions between India and the USA.

Payments in respect of interest and amortisation give rise to US-held Indian government debt which analytically should be kept separate from the debt arising out of the original imports. Logically, one should think of these as being made from out of the income of the projects financed by PL 480. Since, however, these projects are both fixed and social capital, it would be difficult to identify the income out of which they, in

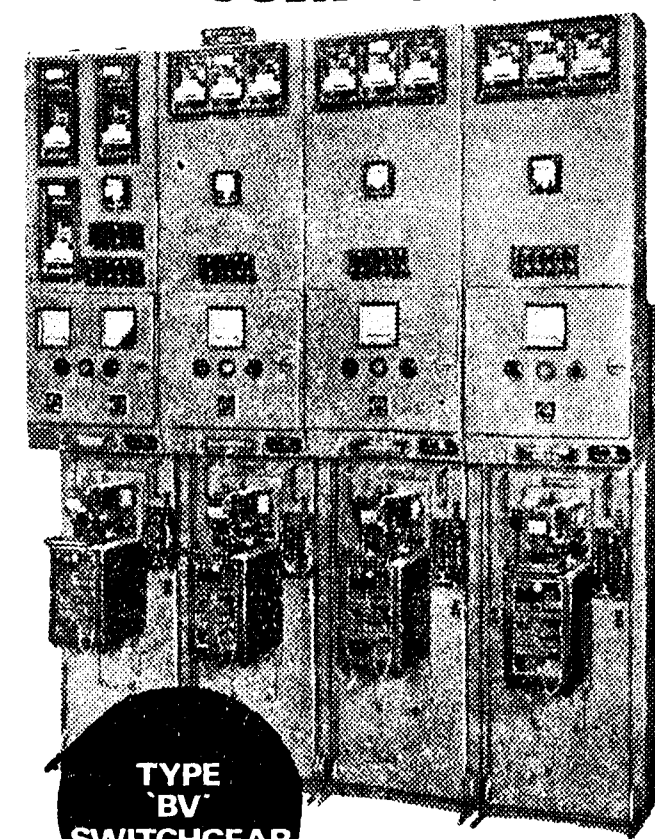
fact are made. Ordinarily, interest or amortisation payments to another country cause a balance-of-payments pressure unless they are matched by equivalent exports. In the present case a large part of them are meant to come back in the shape of loans and grants and to that extent represent reinvestment of profits earned by earlier investment though, it may be noted, such reinvestment not necessarily being in the projects from which the income is supposed to have accrued, is to be understood in a broad sense only. This apart, so long as these payments are made through the issue of special securities they have no impact on the money supply.

We may now discuss the question of timing differences. These differences can arise at a number of stages of the operation. Thus, while the imports and the payment for them resulting in special securities are made in one time period, the sales to public may be in another time period, liquidation of special securities and their replacement by PL 480 loans and grants in a yet third period and the expenditure on the projects for which the PL 480 loans and grants are obtained in a period different from all these. One way out of the difficulty is to merge all these different periods into a single period so that the commencing date is that of the earliest period and the final date that of the latest period. A more useful and realistic course, however, is to make assumptions about timing of these periods which are as close as possible to the reality and see whether this leads to a better understanding.

Earliest Transaction

Now it is obvious that the payment for imports in the form of special securities is the earliest transaction in this series. So long as the imports remain in the government's godowns and the special securities are not liquidated—even though technically payable on demand—all that has happened is that government has financed its inventories by means of an IOU, albeit a special one. Next, it is theoretically possible that the imports may remain with the government as stocks while the special securities get liquidated and the proceeds are put to the three uses viz PL 480 loans, PL 480 grants and US uses. Alternatively, the imports may be sold off but the special securities continue as special securities. As far as the first possibility is concerned, when PL 480 imports are made over a series of years, it would be pointless for the government to maintain the whole of them as stocks. As stocks they do not form a resource available for capital formation. This is not to deny that a small part of them could be usefully retained as stock to be used for buffer-stock operations. But the point is that for the major part imports have to be sold and hence the first possibility is unlikely. The second possibility on the other hand is much nearer reality. In this case what happens is that the government draws off a volume of purchasing power from the public which is somewhat less than or equal in value to the special securities. When this happens the government owes a debt to the USA on the one hand and has a deposit more or less equal to it with the RBI. At this point the government can, if it so chooses, go through the process of converting the special securities into PL 480 assistance by paying to the USA out of the proceeds of sales and receiving the money back in the form of PL 480 assistance. Thus, the unfunded debt in the form of special securities would be replaced straight away by a smaller Government of India debt, and out of the balance a part would be written off and a part paid in cash (i.e., usable Indian rupees) to the USA. Alternatively, the government can spend the proceeds on the various projects which are likely to be included in the PL 480 assistance and negotiate these agreements later. In practice, the latter course is adopted because under the accounting procedure obtaining in the government, the expenditure on the various projects which would later on be met from PL 480 assistance is initially debited to the normal expenditure heads. Subsequently, when the special securities are liquidated and transformed into loans or grants, the debits are transferred to the SDF. It is thus clear that though expenditure on projects has been incurred—which is the same thing as

FOR EXCELLENT PERFORMANCE IN TROPICAL CONDITIONS



TYPE
BV
SWITCHGEAR

FOR 11 KV SERVICE UPTO
350 MVA BREAKING CAPACITY

SPECIAL FEATURES:

- Adaptability to varying conditions and to a particular system.
- Independent Switch unit easily extendible to line up as a Switch-board - with similar units or oil switches.
- Exceptionally small space requirements.
- Easy Accessibility of all parts for routine inspection.
- Specially modified to meet customers' requirements.
- Rear access provided for reaching cable box, current transformers etc. much more easily.
- Vertically isolating secondary connections provided in place of multi-way plugbox and the flexible tubing arrangement.

Also available IB4 Oil Switches for lining up with 'BV' Switchgear

Enquiries to: COMMERCIAL MANAGER

Issued by Publicity & Public Relations Division

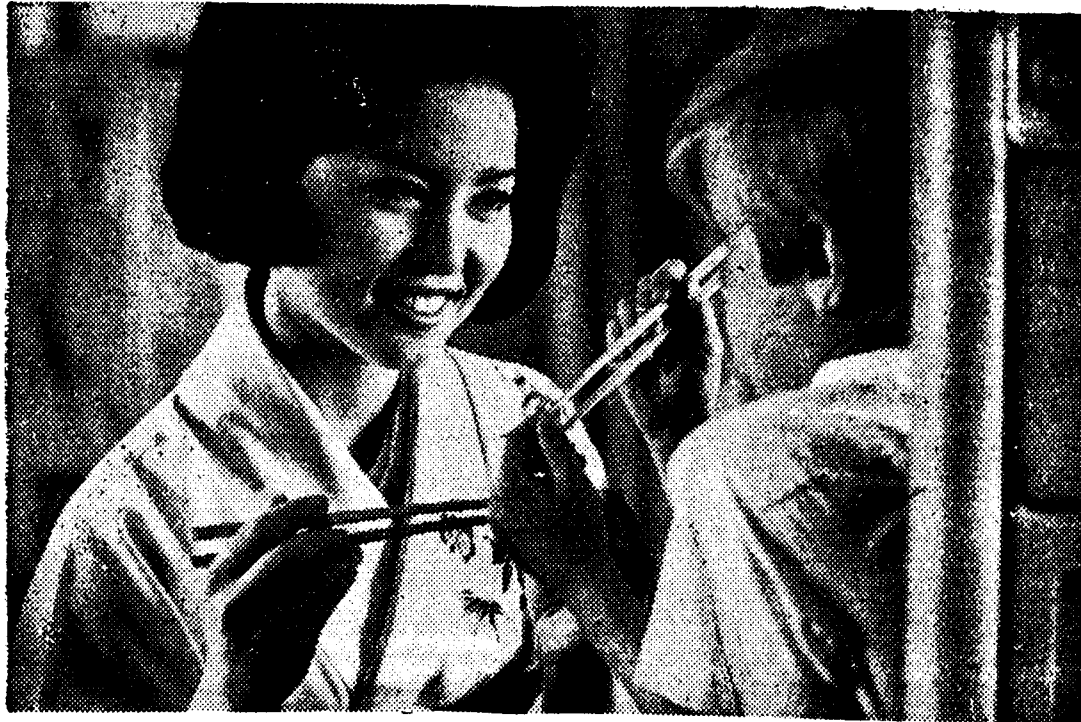


HEAVY ELECTRICALS (INDIA) LTD.

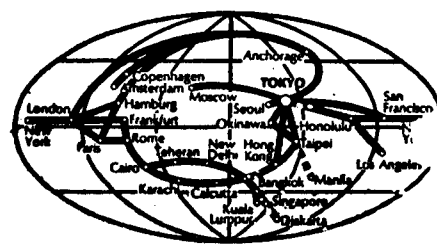
(A GOVERNMENT OF INDIA UNDERTAKING)

East to Japan, the U.S.A. West to Europe

(Now JAL offers 6 jets every week!)



Six times every week, the magnificent Jet Couriers of Japan Air Lines take off from India for destinations the world around. Step aboard JAL in New Delhi or Calcutta. Suddenly you are "in Japan" itself. The atmosphere is calm and classic. The hospitality is gracious . . . performed by lovely kimono-clad hostesses who pamper you with service in the traditional manner.



JAPAN AIR LINES
the worldwide airline of Japan

New Delhi : 72 Janpath • Calcutta : 35-A Chowringhee Road • Bombay : 86 Veer Nariman Road
Phones: 44355 (5 lines) Phones: 23-7811, 7882, 4760, 8311 Phones: 244356, 244357

saying that capital formation has taken place—it is not possible to identify such capital formation as being part of PL 480 projects until this transformation takes place. For this reason we may call it "unidentified capital formation" to distinguish it from "identified" capital formation which is represented by PL 480 loans and grants. The value of the "unidentified capital formation" so defined would be equal to the value of outstanding special securities reduced by the proportion of PL 480 funds usable by India agreed upon in the PL 480 agreements.

This discussion of the effect of timing differences shows in essence that the results obtained from the earlier analysis where no such differences are assumed hold good. What happens is that the PL 480 imports get converted into capital formation to the extent of the portion meant to be handed over to the government as PL 480 assistance. The bulk of this capital formation is 'identified'. Thus we can write down:

$$\text{PL 480 imports} = \begin{array}{l} \text{'Identified' + 'Unidentified' + US uses} \\ \text{capital for-} \quad \text{capital for-} \quad \text{capital for-} \\ \text{mation re-} \quad \text{mation re-} \quad \text{mation re-} \\ \text{presented by} \quad \text{presented by} \quad \text{presented by} \\ \text{PL 480 loans} \quad \text{outstanding} \quad \text{outstanding} \\ \text{and grants.} \quad \text{special} \quad \text{special} \\ \quad \quad \quad \text{securities.} \end{array}$$

The relevant figures for this can be obtained from Table I in Prof. Shenoy's paper. It will be seen, therefore, that during the last 11 years, 1956-57 to 1966-67, India obtained PL 480 imports of the order of Rs 1,692.5 crores. Of these, Rs 978.8 crores were converted into PL 480 loans (col. 2) and the government obtained PL 480 grants totalling Rs 316.5 crores (col. 3). Assuming that the figure of Rs 183.8 crores given by Prof. Shenoy in col. 4 of the table in his paper as US-use of PL 480 funds is correct, there would be a balance of Rs 313.3 crores in the form of special securities out of these imports. The part of this which is usable by India represents the 'unidentified' capital formation. The actual figure of outstanding special securities given in col. 7, however, is larger: Rs 558.8 crores because it includes in addition those special securities which were created as a result of payment of interest or capital on PL 480 and other similar loans.

One Fund

From this discussion it should be clear that there is only one real 'fund': that consisting of the imported commodities and not two as argued by Prof. Shenoy. The value of this is equal to the credits given to USA in connection with the imports or what he calls the US counterpart fund. The so-called Indian counterpart fund differs from this in value only by the amount of the subsidy or stock building. It is not a different fund as such. This 'fund' is transformed into capital formation, fixed or social, through the process of the goods being sold to the public and the proceeds being utilised for such purposes. The government debt which the US government holds either in the form of special securities or in the form of PL 480 loans only evidences the fact that this fund has been lent to India by another country viz the USA which has received the quid pro quo in the form of special types of Government of India obligations, and not sold to India against free foreign exchange or restricted foreign exchange (e.g. Indian rupees usable by the USA for particular purposes) except to the extent the PL 480 agreements allow. Since the agreements stipulate the manner in which the proceeds of sales of commodities have to be utilised the government has to include projects of the appropriate kind in its investment programmes. The possibility of a lack of correspondence between the incurring of expenditures on these projects and the allocation of the debt held in

the form of special securities into PL 480 loans and grants is taken care of by the accounting device of first debiting appropriate normal heads of expenditure and then crediting these and debiting the SDF. In the process there is no monetisation of this debt. That is to say that the debt does not pass into the hands of the banking system. The procedure of paying the US embassy cash for liquidating the special securities and receiving the cash back again from the US embassy in return for debt obligations of a different kind is similar to the earlier operation when special securities are created. In both sets of transactions when the government makes a payment to the USA via the Reserve Bank net bank credit to the government goes up and when the USA returns the money it is reduced by the amount of such payment. It may happen that at the particular instant the government makes the payment its balances with the Reserve Bank are insufficient and therefore ad hocs are created to meet the deficiency; likewise when the payment is received the government balances would go up and result in cancellation of ad hocs. And since in fact in both cases the cash flows in the two directions take place in a short interval of time this is what really happens.**

No Clear-Cut Delineation

It is useful at this point to examine closely the model presented by Prof. Shenoy in Table III of his paper. This table is reproduced on p. 893 for convenience. It will be seen firstly that different categories of transactions and transactors are juxtaposed in this table without a clear cut delineation and secondly that in the form in which it is given it is incomplete. Thus, the rows (in Prof. Shenoy's terminology 'Horizontal Columns') are allotted to both transactions in goods and services and financial transactions without any particular distinction. Row I "Payments for PL 480 imports" is a commodity transaction. Row II "Retirement of special securities" is a financial transaction. Row III food subsidies or additions to stocks contains a "service" transaction, viz., food subsidies and a reflection of the fact that sales of PL 480 imports are smaller than imports. Row IV mixes up a "service" transaction, viz., "Interest payment" with a financial transaction "Capital repayment on PL 480 debt". Row VI (Row V being merely a total) called "Disbursement of unspent PL 480 deposits (special securities)" really shows the net outstanding position of special securities and the manner in which their proceeds would be utilised. But from the way the row is designated it is not clear whether it is intended to show a transaction within the same time period as that represented by rows I—IV or in a different time period. If the former, then there is no separate place for it and it would have to be merged with row II. As regards the columns in the table (or to use a term consistent with Prof. Shenoy 'Vertical Columns') again one is not clear whether they are meant to refer to transactors or not. Assuming they are then the various transactors, viz., the Government of India, the US embassy, the public in India and the banking system are not clearly shown as such nor are all the transactions necessary to complete the model shown. This will be seen from the following analysis of the contents of the columns:—

TRANSACTORS

- Col. 1 Government and the USA in respect of goods and services transactions
- Col. 2 Government and the USA in respect of financial transactions
- Col. 3 Government and the banking system
- Col. 4 Mixture of col. (2) and col. (3)
- Col. 5 5A and 5B government and public in India, 5C the USA and public in India

** From the point of view of monetary analysis what is relevant is "net bank credit to government" i.e. the change in Reserve Bank credit to the centre and state governments, in the form of ways and means advances, holdings of treasury bills, dated securities adjusted for the change in the balances of these governments with the RBI plus the change in the holdings by commercial banks of governmental loan obligations. A reduction of government balances or an increase in Reserve Bank held debt mean the same thing in terms of movements in "net bank credit to government."

Col. 6. Government and public in India in respect of food subsidies only

Col. 7 Row I Government and public
Row II Offsets the entry in this row under col. 3
Row III Offsets col. 6

Col. 8 Government and the banking system

Col. 9 Mixture of col. 7 and 5C.

In what follows an attempt is made to recast this table. For this purpose we shall first show the transactions into two way tables for groups of transactions and transactors and then carry the balances to a single table. The transactions are split up into two groups (i) transactions in goods and services and (ii) financial transactions. For the group "transactions in goods and services" we show transactions between the three transactors, viz., the government, the USA and the public in India. In addition in the table of balances and their financing we introduce one more transactor, viz., banking system. The column allotted to it shows the net impact of the transactions between the three transactors on their position vis-a-vis the banking system. Further, for the sake of bringing out the implications of the figures more clearly we shall make three minor assumptions as regards the figures given by Prof. Shenoy: (i) The figure of Rs 5 crores shown for food subsidies and addition to stocks is split between Rs 2 crores for food subsidies and Rs 3 crores for additions to stocks; (ii) The figure of Rs 10 crores shown for interest and capital repayments on PL 480 debt is divided into Rs 3 crores for interest payments and Rs 7 crores for capital repayments; and (iii) The US uses of PL 480 coun-

terpart funds whether in India or in third countries result in purchases of goods and services from the public in India during the same time period. The figures given in Prof. Shenoy's Table III can now be rearranged. This is done below†.

A Transactions in Goods & Services

		(Rs crores)	
		Credit	Debit
(i) Government-USA			
1. Payments for PL 480 imports			150
2. Interest payments on PL 480 loans			3
3. PL 480 grants		20	
4. Total		20	153
5. Net			133
(ii) Government-Public			
6. Sale of imported commodities		147	
7. Food subsidies			2
8. Expenditure on projects equals PL 480 loans and grants			80
9. Total		147	82
10. Net		65	
(iii) USA-Public			
11. US uses of PL 480 disbursements in India and third countries			20
12. Total			20

PROF. SHENOY'S MODEL OF PL 480 FINANCIAL OPERATIONS (TABLE III)

(Rs crores)													
1	2	3	4	5	6	7	8	9					
PL 480 imports	PL 480 debt with US embassy	PL 480 generated public debt with RBI	Total PL 480	Final disbursements of PL 480 payments	Food subsidies (or additions to stocks)	Budget support expansion (1+5A+5B-6)	Primary money (3+6)	Grand total of PL 480 disbursements (7+5C)					
2A	2B	2C		5A	5B	5C	5D						
I. Payments for PL 480 imports	150	150	150					150					150
II. Retirement of special securities	100	60	40	100	60	20	20	100		80	100		100
III. Food subsidies (or additions to stocks)								5	-5	-5	-5		
IV. Interest and capital repayments on PL 480 debt (II+VI-I)	10		10		10								
V. I+II+III+IV	150	60	120	100	220	60	20	20	100	5	225	105	245
VI. Disbursements of unspent PL 480 deposits (special securities)	60	36	24	60	36	12	12	60		48	60		60
Total	150	96	96	160	256	96	32	32	160	5	273	165	305

† For a discussion of the schematic aspects of Prof. Shenoy's table and the presentation in this paper please refer to the Appendix.

B. Financial Transactions

Special securities	Credit	Debit
(i) Government-USA		
13. On account of payments for PL 480 imports	150	
14. Interest payments	3	
15. Capital repayments	7	
16. Retirement		100
	160	100
17. Net	60	
PL 480 Loans		
18. Increase	60	
19. Capital repayments		7
20. Net	53	
21. Total of 17 and 20	113	

(iii) Government-Public in India

No transactions, as it is assumed that there is no change in the debt position as between the two and that the balance in corresponding goods and services account is settled in a transfer of claims on the banking system.

(iii) USA-Public in India

As in (ii) above.

We thus have the position of the various balances as given in Table A below. The first half of this table shows the balances of the sector named in the row with the sector named in the column. The second half shows how the sector named in the row finances the balances. Borrowing from a sector or reduction of assets with a sector has a plus sign in this part of the table. The last sector in it is the banking system which finances the residuals after a sector has borrowed from the other two sectors. There are only two entries for this sector which are equal and oppo-

site in sign. A negative entry against the government means a reduction of net bank credit to the government. This is balanced by a positive entry against public which means a decrease of public's assets with the banking system, i.e., a reduction in money supply with the public.

This financing table shows that in Prof. Shenoy's example far from there being any expansionary effect actually there is a contraction in the money supply with the public. This happens because the amount of special securities liquidated is less than the amount created on account of payments for imports and interest and capital repayments. If, on the other hand, it is assumed that the two are equal, it will be seen that the table showing the final balances and their financing shows an expansionary effect equal to the sum of subsidies and stock increase. This table would then look as Table B given below.

In preparing this table no account is taken of the creation of new securities on account of interest and capital repayments. However, as has been mentioned earlier this does not in any way affect money supply and therefore has no effect on the entries in the col. "Banking system". There is an expansion of money supply of Rs 5 crores in this case which equals the expenditure on subsidies and/or stock building. This is in accordance with what has been stated earlier.

A similar table can be built up in respect of Table IV given by Prof. Shenoy in which actual budget statistics are fitted into his model of Table III. In doing so we shall exclude figures in respect of interest and capital repayments for reasons mentioned above. As regards subsidies and stocks we may assume that these imports did not lead to any increase in stocks. So that the whole of the amount shown in row III, col. 6 is taken to represent subsidies. The table showing balances and their financing then would be as given in Table C below.

Thus, this table shows that with the figures as given by Prof. Shenoy the PL 480 transactions actually resulted in a contraction of money supply with the public to the tune of Rs 213

TABLE-A

Balances in goods and services account	Govt	USA	Public	Total	Financed by increase in liabilities to or decrease in assets with (+)			
					Govt.	USA	Public	Banking system
I. Government	...	-133	+65	-68	...	113	...	-45
II. USA	+133	...	-20	113	-113	...	...	...
III. Public	-65	+20	...	-45	...	...	...	45

TABLE-B

Balances in goods and services account	Govt.	USA	Public	Total	Financed by increase in liabilities to or decrease in assets with (+)			
					Govt	USA	Public	Banking system
Government	...	-120	+25	-95	...	90	...	5
USA	+120	...	-30	90	-90	...	...	...
Public	-25	+30	...	5	...	...	...	-5

TABLE-C

(Rs crores)								
Balances in goods and services account	Govt	USA	Public	Total	Financed by increase in liabilities to or decrease in assets with (+)			
					Govt.	USA	Public	Banking system
Government	...	-1376	+397	-979	1192	...	...	-213
USA	+1376	...	-184	+1192	-1192	...	...	...
Public	-397	+184	...	-213	...	...	...	213

crores. This is so because although the government withdrew purchasing power to the tune of Rs 1593 crores from the public (Rs 1693 crores minus subsidy Rs 100 crores) through sales of PL 480 commodities it also put back Rs 1196 crores as expenditure on PL 480-financed projects and the USA contributed another Rs 184 crores resulting in a net reduction of Rs 213 crores in money supply with the public. Put it differently, the difference between Rs 1,693 crores, the value of imports, and Rs 1,380 crores (the amount returned to the economy) under PL 480 loans, grants and US uses is Rs 313 crores. This would have been the contraction if the full value of imports had been realised. Since, however, the imports were subsidised to the extent of Rs 100 crores, the contractionary impact works out to Rs 213 crores. In reality, however, because of the lag between the incurring of expenditure on projects and the conversion of special securities into loans, grants, etc., it is unlikely that there would have been a net contractionary impact of this order.

Thus, the financial model presented by Prof. Shenoy (a) requires a thorough overhaul and (b) when this overhaul is done it is easy to see that it supports the position stated in this paper.

APPENDIX

It is proposed in this appendix to describe the schematic aspects of Prof. Shenoy's Table III and the tables given on pages 898 & 899 of the text of this paper. First we shall classify the entries in his Table III according to the nature of the transaction and transactors. For this purpose row V and cols. 2C, 4, 5D, 8 and 9 which show totals are disregarded. Row VI is also disregarded for reasons mentioned earlier.

Entry in Row	Shows transactions in account	And represents	By/of sector	To sector
I	1 Goods and services	Payment	Govt.	USA
	2A Capital	debt increase	"	"
	7 Goods and services	Payment	Public	Govt.
II	2A Capital	debt reduction	Govt.	USA
	2B Capital	debt increase	Govt.	USA
	5A Goods and services	Payment	Govt.	Public
	5B Goods and services	Payment	Govt.	Public
	5C Goods and services	Payment	USA	Public
III	6 Goods and Services	Notional payment	Govt.	Public
IV	2A Capital	Debt increase	Govt.	USA

In the tables on pages 898 and 899 of the text these entries are placed as follows. (The row number of his Table III is shown first and the col. No. next).

	Credit	Debit
1. Payments for PL 480 imports		1.1
2. Interest payments on PL 480 loans		Not shown in Table III
3. PL 480 grants	Not shown in Table III	
4. Total		
5. Net		
6. Sale of imported commodities	1.7	
7. Food subsidies		III.6
8. Expenditure on projects equals PL 480 loans and grants		II.5A and 5B
9. Total		
10. Net		
11. US uses of PL 480 disbursements in India and third countries		II.5C

†† To borrow a Shenoyian simile when Hindus become Christians that does not add to the total population!

12. Total		
13. On account of payments for PL 480 imports	I.2A	
14. Interest payments)	IV.2A	
15. Capital repayments)		
16. Retirement	II.2A	
17. Net		
18. Increase	II.2B	
19. Capital repayments		Not shown in Table III
20. & 21.		

On checking this scheme of entries with that of his Table III, it will be noticed that apart from the entries relating to sub-totals and totals and those in row VI we have not taken into account the entries in col. 3, row II col. 7, row III col. 7 and col. 8. This is because of the following reasons:

Col. 3: This column refers to the so-called PL 480-generated debt with the RBI or PL 480 deficit financing. As has been discussed in the text this simply does not exist.††

Row II col. 7: The same remarks as for col. 3 apply here.

Row III col. 7: Having taken row III col. 6 into account in the government's transactions with the public there is no need to take this into account.

Col. 8: As will be seen from the table on financing of balances, the net impact on money supply is quite different from that given here. This is because the entry in row II col. 8 is erroneous.

It will also be noticed that our scheme includes certain entries which are missing in Prof. Shenoy's table. These are No. 2 interest payments, No. 3 PL 480 grants and No. 19 capital repayments. In Prof. Shenoy's presentation, only one side of these is shown and not the other.

RECORDS AND STATISTICS

A Quarterly Bulletin of "Eastern Economist," this publication surveys important developments in each quarter in the various fields of the national economy as well as in the world economy, organizes its material in a convenient form and illustrates it with diagrams, graphs and charts. Its special features are a business roundup, an analysis of markets and an investment supplement.

The Bulletin averages 64 pages and is priced at Rs 4 per copy. The annual subscription is Rs 16.

Inquiries regarding subscription and advertisements may be addressed to:

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

Economics of Rupee Trade—II

MANUBHAI SHAN

AT THE present moment the difficulties that we face about trading with the USSR and other east European countries are (i) slow expansion in our essential imports such as special steels, alloys, non-ferrous metals, rare metals, fertilisers, organic chemicals and basic raw materials in which we are deficient and which they should make available to us even if it means strain on their economies and (ii) our failure to interest the trading organisations of these countries in the purchase of goods from India within the framework of our general commodity list so that they may purchase increasing volume of textiles, light engineering products, instruments, steel and steel products, pharmaceuticals, fine chemicals, drugs, shoes, fruit juices and vegetables and other consumer goods.

The future pattern of imports from the USSR should be framed on the basis of planned complementarity. The nucleus for such co-operation is already available in the form of many USSR-aided projects in India. The Soviet government should, therefore, be persuaded to use our heavy engineering and electrical complexes as the base for operations in their economic activities in Asia and Africa. Thus, if they advance credits for setting up steel plants in Africa or Asia, the Ranchi complex should be asked to supply the blast furnaces and other equipment. This in turn will mean supply of more components from the USSR to India and increased trade exchanges. This will also assist us in utilising the capacities which have been created with Soviet aid in the field of heavy machine building. The Soviet authorities have often expressed their willingness to chalk out such working arrangements.

Consumer Goods Exports

Our exports to the USSR will be, to a large extent, of consumer goods. In this field the possibility of growth is unlimited. With the rising standard of living in the USSR, increased imports of consumer goods will be made by the Soviet trade organisations. In its efforts to build up balanced trade with the developed countries of the west, the socialist countries will not at any stage find it advantageous to buy consumer goods from those countries at the expense of industrial raw materials and machinery required by their economies. The inference that more and more trade in consumer goods can be done by the developing countries follows from this fact. It is also advantageous for us to produce and export such goods. Our capacities already in existence are adequate. The main items will be refrigerators, fans, sewing machines, thermos flasks, footwear, ready-made garments and cosmetics. The only difficulty is in regard to the cost of production in India. In many cases, the cost goes up due to the use of expensive indigenous raw materials. But if raw materials used for export production can be supplied to our exporters at international prices, as in the case of steel, there should be no reason to despair of making our prices competitive. Apart from this, the Soviet orders will be so large that there will be tremendous cost reduction due to economies of scale only. A recent example is the willingness of the USSR to place orders in India for nearly two crores of rupees worth of a single item such as thermos flasks.

If the growth of industrial co-operation between India and the USSR becomes a reality in the near future, it would be possible to link transactions on both sides under a guaranteed off-take arrangement. What we may envisage is that our consumer goods and to some extent our machinery should find a permanent place in the life and habits of the average Russian home. I do not know whether I am a little optimistic in foreseeing such a possibility but the experience of the past decade should be a reliable guide. We can raise Indo-Soviet trade (imports plus exports) from the present Rs 300 crores to Rs 500 crores (post-devaluation rate) in the next quinquennium. Out

of our overall foreign trade (imports and exports) of about Rs 3,000 to Rs 3,500 crores per year, this is not an unrealistically high figure for the sound and healthy development of Indo-Soviet trade and economic co-operation which is built on solid foundations of friendship and mutual benefit.

India has bilateral trade agreements with several countries; of these the most important is the 'rupee trade' with the eight centrally planned countries of eastern Europe. Rupee trade covers North Korea and North Vietnam also but the trade quantum with them is small; it is the trade with the east European countries that has emerged in the past few years as an important element in our external trade.

Whereas in the decade 1956-57 to 1965-66, our total exports to all destinations increased by 34 per cent (from Rs 604 crores to Rs 810 crores), our exports to the eight east European countries multiplied 7½ times (from Rs 21 crores to Rs 157 crores). In other words, out of a total increase in exports of Rs 206 crores in the decade, the east European countries accounted for no less than Rs 136 crores. Our imports from this group of countries have also increased correspondingly.

Special Features

In order to understand the significance of this trade for us, it is necessary to know what the rupee payment arrangement means. In essence, it refers to such features as:

The trade is based on trade and payments agreement signed with each of these eight countries providing for all bilateral transactions to be settled in non-convertible rupees.

The exchange of goods between these countries and India is carried out by advance agreement on the exchange of goods for a particular year embodied in what is called the trade plan.

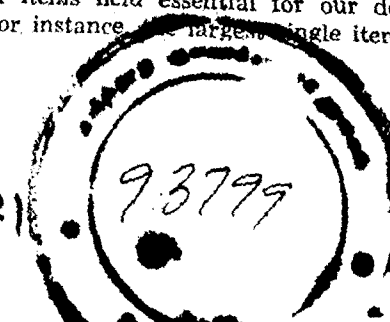
The long-term projects financed by these countries including those under the credits granted by some of them such as the USSR, Czechoslovakia, Yugoslavia and Poland are to be paid for by export of Indian goods.

The expansion of export and import under this system has helped the country to have a more balanced international trade. Not only has the composition of this trade been in accordance with our national priorities, but, more importantly, the unorthodox method of payment, featuring "counter-patronage", has given us considerable advantage in our development programme. The self-liquidation procedure of trade balances through rupee payment has certainly added to the possibility of expansion and an automatic growth of the trade between India and the contracting countries. In short, if there is any one area where our export promotion measures have brought success, it is in regard to trade with the east European countries.

Specifically, the advantages of the rupee trade to us, as summed up officially, have been: (a) Goods which otherwise would have been difficult to obtain on account of the scarcity of foreign exchange are made available. (b) We have been able to export certain items which may not otherwise have been exported. (c) The system of bulk purchase by the trade bloc has helped to firm up the prices of several of our commodities and has thus helped in realising a better unit value for our products than would otherwise have been obtainable in normal market conditions. (d) Several Indian industries have reaped the benefit of the scale of production because of the large-scale contracts for export to these countries.

Simultaneously, in the list of imports have featured important manufactured items held essential for our development. From the USSR, for instance, the largest single item of import

XL
X m 2, N 4 2
N 67.49.18-21



is machinery, followed by petroleum products. The other items include basic raw materials such as non-ferrous metals. The pattern of imports from other partners in the bloc has also a similar bias towards manufactured items and includes capital goods in repayment of credits for plants and machinery for the heavy industrial projects built in our country with their technical know-how and expertise.

Notwithstanding the obvious advantages, there has been some criticism of our east European trade pattern and of the rupee payment agreement. This criticism has found some reinforcement on account of the developments since devaluation and the consequent import liberalisation this country has followed. Broadly, these doubts can be analysed in terms of the economic changes in our country as also in terms of the changes that are rapidly taking place in these countries.

Following devaluation, for a time, our trade with east Europe was at a standstill. But this was soon resolved by a series of negotiations with the countries concerned. The broad recognition by both the parties that the rupee used as a medium of foreign exchange in the transactions between India and the bloc countries should not be treated differently from any other convertible medium of exchange, resulted in agreements to escalate the values by 47.5 per cent to 57.5 per cent. This decision restored trade flows and even maintained the pre-devaluation unit prices for practically all the traditional items.

Reduction in Imports

Import liberalisation by our government following the change in the par value of the currency has also somewhat affected the east European trade. On account of the more liberal import possibilities for India from other countries, the new liberalised licensing system has led to some reduction in imports from the socialist countries. There is a fear that a continuous fall in our imports may result in these countries not generating enough funds here for financing their purchases. As India and these countries have always had notional priorities in making mutual purchases, the effect of the shrinkage of our imports is, in turn, likely to be reflected in the lower offtake of our non-traditional items by the east European countries. This line of argument need not however be stretched too far as, given the goodwill and earnestness, these and other problems arising out of day-to-day developments in trade can be settled by diligent negotiations.

The more serious argument against the rupee trade has been that the east European trading organisations sell goods procured by them from India in our traditional markets, thus involving loss to us of our normal outlets. The extent of this problem of switch trade has been variously estimated. It is conceivable that the rupee pattern of trade, as any other, is misused or mishandled by individual exporters or importers or trade organisations. And, even here, as already indicated in the previous article, diversion is acknowledged to be totally absent in so far as the Indo-USSR trade and Indo-Czech trade are concerned. For other partners where some diversion might be taking place, we must take rigorous measures to totally eliminate it.

A great deal of thought has, therefore, now to be given on the ways and means of not only preserving the rupee trade but also expanding it. This would entail, among other things, the following: (a) Exchange of goods where diversion would not be profitable and where the purchase of goods from these countries would be limited to those items where there is competitive quotation. The work of planning for imports and exports will here become a delicate task. (b) The present pattern of commodity exchange, especially in respect of agriculture-based commodities, should change progressively from the raw form to more finished form so that the incentive for diversion in the importing countries may be removed. (c) Regarding imports, many of the east European countries may not be able to give

us more raw materials and, as we progressively reach self-sufficiency in machinery production, we would find it difficult to purchase more of their machinery. We should therefore search for new fields of industrial co-operation with these countries, so that we may exchange components and machinery with them on the basis of specialisation and partial division of labour. This action will mean more detailed studies of the requirements of such countries as Yugoslavia, Czechoslovakia, etc. (d) Where possible, in the trade agreements with these countries, a third country clause should be introduced so that when India has a favourable balance, the partners in the rupee trade might be allowed to supply essential goods to us from the third country.

While it would be possible to bring about these changes, the immediate problem, especially in regard to the east European countries, is to obtain sufficient data about their exact import requirements. When we do get some information, our business methods should be so oriented that we are able to get the contracts through before our competitors negotiate the bargains. Indeed, the government is aware of this and has created a special cell to dispose of enquiries and give information on a priority basis. Another difficulty is about getting detailed specifications for items of interest in these countries. This should also be set right by mutual discussion as otherwise it would mean loss of business, because quotations cannot be made unless the specifications are obtained in time.

The rupee trade as it has evolved is a unique experiment and is definitely something more than a system of mere commodity exchanges. Our trade relationship with these countries in all probability will in future take the character of collaborations at different levels with mutual advantage. It would also be on the basis of a planned complimentary nature. Given care and perseverance, the few complaints of diversion can be eliminated by suitable steps and mutual co-operation. The possibilities of fruitful expansion of healthy trade and economic relations with the rupee trade area are indeed bright and mutually beneficial.

(Concluded)



GULZAR (I) LAL

FROM THE CAPITAL'S CUPBOARD

Indo-German Economic Collaboration

IN CONNECTION with Chancellor Kiesinger's visit to this country next week, the Government of India has been taking stock of the Indo-German trade relations and assessing West Germany's aid contributions to our economic development. As for the quantum of assistance provided to us so far by the members of the Aid India Consortium, West Germany ranks second. But what detracts from the value of its assistance is that this aid is a mixture of governmental and suppliers' credits. The suppliers' credits amounted to \$29 million in 1963-64, \$27.5 million in 1964-65 and \$25 million in 1965-66. The down payment for these credits is the largest among similar credits—15 per cent of the contract price. Besides, the rate of interest on the balance of the amount, about 8.5 per cent, is considered too high.

Consequently, the net aid available from West Germany has been far from substantial. For instance, the gross draws under the various loan agreements signed with West Germany during the third Plan period amounted to \$461.43 million. But after paying \$286.15 million during this period on account of principal and interest charges, the net amount available was \$175.28 million. Similarly during 1966-67, the net assistance was \$35.93 million against a total disbursement of \$85.02 million. During the current year, our liability to West Germany on account of principal and interest will be as high as \$44.74 million. The quantum of West German aid has also progressively come down from \$139 million in 1962-63 to \$63 million in 1966-67.

As regards trade, a curious aspect that has come to light is that nearly 40 per cent of our goods that enter the West German market go there through third countries, especially the United Kingdom, the Netherlands, Switzerland, Belgium-Luxemburg and Italy. It is not clear why this diversion takes place, but officials here are not perturbed over it as this does not entail any direct loss of free foreign exchange.

Our exports to West Germany have been continually on the decline. The imports from our country which accounted for 0.9 per cent of the total imports into West Germany during the quinquennium, 1952-56, declined to 0.6 per cent during 1957-61 and further to 0.4 per cent during 1962-66. West German exports to our country which formed 1.8 per cent of its global exports during 1952-56, increased to 2.3 per cent in the next five years, but declined to 1.3 per cent during the period 1962 to 1966.

In order to stimulate the exports of engineering goods to West Germany, our government invited a German expert, Mr Vollrath, to identify the products which could be marketed in his country with such changes in the manufacturing processes, finishing and packing as may be necessary. Mr Vollrath's report lists a number of engineering products which have a potential in the markets of western Europe and pin-points our main handicaps in competing effectively in these sophisticated markets. On the basis of the Vollrath report a scheme has been drawn up in consultation with the West German government to get a number of marketing specialists trained by a group of German experts and to supplement such training by public relation works in West Germany. Preliminary steps have already been taken by the Engineering Export Promotion Council for the selection of trainees. On a rough basis, it is estimated that the expenditure on the Vollrath plan over a period of two years would be around Rs 28 lakhs which will be shared by the governments of India and West Germany.

INCENTIVES FOR EXPORTS

The union government is having a fresh look at the scheme of incentives for exports. The existing scheme of cash assistance has not helped to increase export earnings. The reason is

that foreign importers generally know the amount of assistance given to our exporters and are thus able to beat them down on prices. The alternative is to evolve a scheme which conceals the quantum of subsidy for exports. The tax-credit certificates scheme, which was in operation before devaluation, was designed to serve this purpose. But since it was done away with following devaluation, the question of its reintroduction has to be approached cautiously. The Commerce Ministry has undertaken certain exercises aimed at reviving the scheme. A decision on the matter will be taken after the Commerce Secretary, Mr K. B. Lal, reports to the government on the outcome of the talks at this week's meeting of the Aid India Consortium at Paris.

Meanwhile, the Commerce Ministry has begun an overhaul of the credit organisations that have been established to help exports. For the first time, the Reserve Bank will be closely associated with the working of the Export Credit Guarantee Corporation (ECGC). In a way, it will be directing the corporation's operations, for it has been decided to appoint Mr B. N. Adarkar, Deputy Governor of the Reserve Bank, as the chairman of the ECGC. The Ministry is also reorganising and regrouping various committees dealing with exports and imports. There will be an apex body consisting of representatives of manufacturers' organisations, leading industrialists and officials to deal with trade problems. This apex body, which will be called the Board of Trade, will have under it two standing committees—one dealing with foreign trade and the other with internal trade.

INDUSTRIAL ESTATES

After a promising start, the scheme of industrial estates is now in a bad way. Out of the 336 estates that have been established, only 231 are functioning. About 7,485 sheds were put up in these estates, but only 4,348 have been put to use. The position in the case of rural and semi-urban industrial estates is worse. Out of the 2,804 sheds constructed in 207 estates, 1,264 are still to be occupied.

Two important reasons for this state of affairs are: (a) most of the states have not so far decided about the terms of transfer of ownership of sheds on a long-term lease or on a hire-purchase basis; and (b) wrong location of the estates.

The centre has advised the states not to build any new estates on their own, but, as far as possible, assist the setting up of co-operative and private industrial estates in the urban areas. The Life Insurance Corporation has also now agreed to finance the establishment of co-operative industrial estates.

ASHLAND AND ANDHRA COPPER

The union government has approved the participation of Ashland and Company, an American concern, in the exploration of copper deposits at Agnigundala in the Guntur district of Andhra Pradesh. Ashland will have 49 per cent share in the equity of the corporation that is being set up to develop these copper deposits. Prospecting by the Geological Survey of India has shown that the deposits are adequate and can be commercially exploited.

MORE PURCHASES FROM SMALL INDUSTRIES

About 30 items are to be added to the list of items reserved by the Director-General of Supplies and Disposals for purchase from the small-scale industrial sector. These have been selected out of 181 items which the Development Commissioner for Small-scale Industries had suggested should be bought from the small-scale sector. At present, the DGS&D is purchasing 85 items (the number was 16 in 1957) exclusively from this sector.

LONDON:

The World Leaders

Ever Widening Uses

Far more important than substitution is the role which plastics perform because, in many lines, they increase the extent to which natural materials can be employed. This applies, e.g., to the paper industry, where a combination of plastics with paper or cardboard makes it possible to produce packing materials which greatly help the paper and cardboard processing industry to widen its markets. In the metal-using industries the position is similar; some of these have managed, through the coating of sheet metals, greatly to improve the qualities of the natural material and consequently to widen the scope for using it.

There are other instances where plastics have formed the prerequisite not only for new methods of production but even for completely new products. One example is the wood processing industry. Through the development of new synthetic resins it has become possible to bound wood particles (even waste and low grade material) into chipboards and fibre boards, thereby creating a material fully usable in the furniture industry as well as in the interior finishing of buildings and in other applications. In many cases, indeed, the qualities of the new material in processing and in use are proving superior to those of the materials traditionally employed in these industries.

In West Germany, the building trade accounts for roughly one-third of the plastic processing industry's total production. In building, plastics are most widely used for interior finishing, as floor coverings, for insulation purposes and for surface protection in the widest sense. Plastics cannot yet replace steel or concrete as load-bearing structural elements; nevertheless certain synthetic resins have attained some importance because they are capable of bonding concrete with concrete or concrete with steel. Despite the obviously innumerable possibilities, some scepticism about plastics still persists in the building trades, especially where they compete with traditional materials such as wood and stone. In the electrical engineering industry, plastics have found fields of application easily apparent even to the layman. Apart from switches, stands and insulating materials, nearly all household appliances require the use of plastics in greater or lesser degree for their manufacture. Fewer people are aware, on the other hand, of the progress made by plastics in mechanical engineering, in which not only casings, pipes and packings, but also machine components which are exposed to severe stresses, like gearwheels, bearings or springs, are now made from plastics. The advantage of such components, compared with those made from metal, is not so much cheapness but that they need less servicing.

In the packaging industry, the various kinds of plastics have established themselves firmly alongside the conventional materials such as wood, glass, paper, cardboard and metal. Especially in small packings, although they have not completely displaced those materials. Keen competition has developed, however, between non-returnable bottles made from plas-

Although plastics in unimaginable variety have penetrated into nearly all spheres of human life, there remain numerous fields, for example in automobile building, where they are only now beginning to spread. The plastics industry ought therefore to be able to rely, in the future as in the past, on achieving comparatively high rates of growth and it should remain a form of manufacturing which influences the progress of the entire chemical industry.

II: West German Capital Market

Since mid-August a powerful new customer has entered the West German capital market. The Deutsche Bundesbank announces briefly in its monthly report that it has now begun to purchase official issuers' bonds on the open market "for its own account". Previously the Bundesbank had confined itself to maintaining an orderly market, trying through purchases and sales on account of the federal government to iron out short-term price fluctuations. The decision to acquire old government securities with new central bank money is a significant extension of open market policy, to be interpreted as further harnessing the central bank to Bonn's new economic and financial policy, according to the Berliner Handels-Gesellschaft Bank's latest economic review.

Whether by chance or not, on the day before the Bundesbank's monthly report was published there appeared in the "Handelsblatt" an article by a senior official in the federal Finance Ministry significantly entitled "Open market operations in federal bonds?" It is true that this official denied that the Bundesbank had in the past used its own resources to support the market "and had thus pursued a policy of inflationary money creation", but in the same breath he goes on: "Given concordance like that which at present exists between fiscal and monetary aims, the Bundesbank might well conduct open market transactions in longer-term securities as well, flexibly adapting bank liquidity both to current market conditions and to the cyclical situation better than could previously be done".

Apart from the curious suggestion that during a credit squeeze the banks would be more inclined to acquire longer-term government securities from the central bank than they now acquire on the market in conditions of extreme liquidity, the reasons given by the Finance Ministry official for the extension of open market policy are essentially the same as those put forward by the Bundesbank. In fact, the bank—after announcing the intensification of its bond market activity, hitherto limited to price regulation—continues: "In pursuance of its present credit policy the Bundesbank thus intends to keep the money market liquid, and at the same time to influence the bond market in accordance with its interest rate policy". The Finance Ministry official carries this juggling with words further, however, by adding that the Bundesbank would conduct open market operations in long-term securities not in order to support their price but only "to regulate the money market"; this distinction is important, he says, because under the present Bundesbank Law, price supporting operations would meet with objection if intended to grant credit to public issuers.

It seems obvious that the Bundesbank's new activity is designed not merely to prevent a rise of the long-term rates, but also to exert gentle pressure to bring that rate down from its still high level. In practice that is done through purchases of securities, and to do this is nothing else but price support. True, no granting of credit to public authorities is directly involved; but with liquidity policy as generous as it now is, the authorities

The present law empowers the Bundesbank, "for the purpose of regulating the money market, to purchase and sell certain items "on the open market at market prices". The law, however, defined those items so liberally that the Bundesbank can include in its transactions practically all forms of capital market securities. The apparent conflict between the express limitation to "regulating the money market" and the permission to deal in "capital market securities" is resolved in the light of the well-known fact that long-term securities, during the last years of their lives, assume the character of money market paper. Only such securities can be meant when the law talks about including capital market securities within the scope of open market operations. If the emphasis in reading the text of the law is placed not on the list of permissible items but on the words "for the purpose of regulating the money market", the Bundesbank is not empowered to conduct open market operations so as to interfere directly with the course of the capital market. Such a strict interpretation makes sense because the law was meant to prevent misuse of the note printing press.

Modest Resources Used

The amount of the central bank's own resources so far used in the capital market—less than DM 40 million between mid-August and the beginning of September—is modest in comparison with the thousands of millions released during recent months from the banks' obligatory minimum reserves. But despite abundant liquidity the subsidiary object of those releases, namely to induce a further fall in the long-term rate, was not achieved. One reason was that the banks employed some of the new liquidity as an addition to their foreign assets, another that they used the money to reduce their rediscounting at the Bundesbank. Even to place the government's medium-term notes on attractive terms needed some extra help—so the Bundesbank included them in its money market operations as soon as their remaining life was down to only 18 months. Since the release of minimum reserves is one way of creating money, it could be argued that the Bundesbank's present direct action in the capital market appears not only more effective but also cheaper. In fact, thanks to the injection of central bank money amounting to not quite DM 40 million, the yield on the "regulated" securities dropped within a few weeks by about 0.2 per cent, whereas the release of nearly DM 2,000 million minimum reserves in the preceding months had left the level of interest rates for capital unchanged.

Although the Bundesbank's influence on the capital market is restricted because it buys only securities of official issuers, and further that for this purpose an internal limit has been set, the bank's purchases may lead to somewhat higher prices. Experience shows that public securities lead the market. If they rise, other bonds follow suit.

The initiators of the campaign against high interest rates did, however, make one tactical mistake. They allowed the mass of new medium-term treasury notes to bear relatively high yields; these are unduly expensive for the government, and hence for the taxpayer. But for that mistake the questionable step of extending open market operations to include long-term government securities might have been avoided. Whatever the intentions might be, by intervening on the capital market the bank tends in fact to "monetise" the national debt. That, at any rate, is the view held in Frankfurt banking circles led by the Berliner Handels-Gesellschaft.

Sources and Acknowledgments: The review of world production of plastics has drawn on a report in the latest issue of the "Deutsche Bank Review" (Frankfort on Maine, West Germany).

Trade Winds

FOURTH PLAN

SUBJECT TO ratification by the National Development Council, a decision has been taken by the Planning Commission to start the fourth five-year Plan from 1969-70, treating the three-year period (1966-67 to 1968-69) as an interregnum. This was announced on November 10 by Dr D. R. Gadgil, Deputy Chairman of the Planning Commission. Work on the draft of the fourth Plan, according to him, would commence in January next and the document would be ready in September, 1968. The Plan would lay down the broad objectives, guidelines and policies for the five-year period ending 1973-74. He said the 1968-69 annual plan would be directed towards: (1) maintaining development effort during the year along the lines indicated in the five-year Plan, (2) defining programme of action having regard to immediate past performance, physical availabilities and financial resources, and (3) making adjustments in emphasis and relative size of effort in view of the emergent economic situation.

COLOMBO PLAN

India was the principal donor in the Colombo Plan region during 1966-67, providing 291 or over 73 per cent of the regional total of training places, according to the annual report of the Colombo Plan Council for Technical Co-operation in south and south-east Asia for the year. Next to the United States, India is the second largest donor in the supply of experts to the region. The report, released last week on the eve of the 18th Colombo Plan consultative committee meeting in Rangoon later this month, says India has also been the largest recipient of training places in other countries having received 8,372 in a total of 48,440 awards to the region under the plan. In 1966-67 alone, India received 634 training awards, 119 Colombo Plan experts and between 1965-67 equipment valued at \$629,761. Since the inception of the Colombo Plan up to June 30, 1967, 8,372 Indian students have been trained in Australia, Britain, Canada, Japan, Malaysia, New Zealand, Philippines and the United States. The report says emphasis in the economic development plans of countries under the Colombo Plan has shifted to agriculture. Food production in these countries has, however, failed to keep pace with the growth of population and they have been importing increased amounts of foodstuff to prevent starvation. The technical assistance which the plan provided in 1966-67 has continued at about the same level as in previous years. The total expenditure on technical co-operation was £48 million (more than Rs 100 crores), against £47.92 million for the previous year. The major factors limiting the flow of technical assistance are the financial and budgetary limitations of donor countries, the difficulty in the recruitment of high-calibre experts and administrative delays both in the selection of experts and placement of trainees. The factors limiting the usefulness of technical assistance, according to the report, are language, shortage of funds to meet local costs, lack of necessary equipment, counterpart personnel and infrastructural requirements, lack of proper follow-up measures on reports by experts and lack of co-ordination among recipient countries.

UNSECURED ADVANCES

The Reserve Bank has in a communication to commercial banks, spelt out the new policy in relation to what are known as unsecured advances, laying down certain norms and making relaxations to ensure that the flow of bank credit for production, trade and exports is selectively liberalised under the bank's busy season credit policy. Advances to farmers against hypothecation of crops, and 12 other forms of unsecured credit will be excluded under the new policy from the total of unsecured advances for the purpose of the norm relating to these advances and guarantees prescribed by the bank in May last. These credits would therefore be entitled for refinance on preferential terms. The relaxations were recommended by a work-

ing group headed by Mr B.N. Adarkar, Deputy Governor of the Reserve Bank, which looked into the question of definition and classification of unsecured advances in view of the different practices in this regard and evolved uniform concepts in the matter of unsecured advances. The study also showed that a substantial portion of these advances, which aggregate to around Rs 340 crores per year, financed legitimate production, movement and export activities. The working group also indicated certain guidelines to be followed by commercial banks which the Reserve Bank has communicated to banks with its approval of the same. Among the more important of these are that commercial banks must satisfy themselves about the marketability of the shares and the net worth position of the company whose shares are offered as security. Banks have been asked to be particularly careful while making advances against shares known to be subject to speculative activity. Adequate margins should, in all cases, be maintained. Banks have been asked to scrutinise carefully the purpose for which an advance against shares is sought and to ensure that the advance is not used for speculative purpose or for enabling the borrower to acquire or retain a controlling interest in the company. Particular care is called for in making advances against a large block of shares. Advances against shares should not be made for long periods. A suitable repayment programme should be drawn up for such loans already made. Where advances exceed Rs 5 lakhs, banks should obtain the Reserve Bank's approval for the repayment schedule. At the same time, to ensure a degree of liquidity for investment in shares and thus to encourage investment in shares and securities, banks may allow loans or overdrafts to individual customers against shares provided they are for short periods and/or are subject to repayment programme.

CREDIT POLICY OUTLINED

The Governor of the Reserve Bank of India issued on November 7, a circular letter to scheduled commercial banks laying down the credit policy for the current busy season. The policy of selective liberalization assures banks of refinance at bank rate to meet their advances to the preferred sectors and also reduces from 10 to 8 per cent the penal rates charged on borrowings in excess of a liquidity ratio of 30 per cent. There will be no penal rate for excess borrowings up to one week. In his circular to the banks, the governor recalled that in the last busy season, although a high target of credit expansion had been provided for, the actual expansion was much smaller and a substantial portion of the additional bank rate finance remained unutilized, while many sectors engaged in productive activity complained of inadequacy of bank finance. "I have, therefore, felt that instead of making a pro rata allocation of additional bank rate finance on the basis of estimates which have been prepared for the banking system as a whole, banks may be given a qualitative rather than a quantitative indication of the additional refinance which would be available to them," he stated. For the current busy season, therefore, such refinance will be provided to banks on a selective basis related to their credit to certain preferred sectors.

INDUSTRIAL LICENSING POLICY INQUIRY BODY

The Industrial Licensing Policy Inquiry Committee has finalised a questionnaire which will be sent to large business houses whose industrial licences will be studied by the committee. The questionnaire will also be sent to the regional chambers of commerce, the department of industrial development and the state governments. It was finalised at the committee's meeting held in New Delhi last week under the chairmanship of Prof. M. S. Thacker. The committee has been appointed to inquire into the working of the industrial licensing policy and procedures during the last 10 years. Its members include Dr H. K. Paranjape of the Indian Institute of Public Administra-

tion and Mr S. Mohan Kumaramangalam, former Advocate-General of Madras. Mr K. L. Rathee, till recently Commissioner, Municipal Corporation of Delhi, has been appointed secretary of the committee.

CURB ON GUR ADVANCES

Commercial banks have been directed by the RBI to keep their advances against gur at 70 per cent of the level extended last year. In each two-month period "commencing November-December 1967", banks are to maintain an average level of credit which shall not exceed 70 per cent of the level of such advances actually maintained in the corresponding two-month period of 1966-67, according to a Reserve Bank press note. Banks are also required to maintain a minimum margin of 50 per cent on their lendings against stocks of gur.

ADVISORY COUNCIL FOR INDUSTRIES

The new Central Advisory Council for Industries will be headed by the union Minister for Industrial Development and Company Affairs, Mr Fakhruddin Ali Ahmed, and will function for the next two years. The members are: Mr L. N. Birla, President of the Federation of Indian Chambers of Commerce and Industry; Mr C. A. Pitts, President of the Associated Chambers of Commerce and Industry of India; Mr J. R. D. Tata; Mr Keshub Mahindra; Mr A. R. Bhat, President of the Federation of Associations of Small Industries of India; Mr Charat Ram; Mr B. D. Somani, President of the All-India Manufacturers' Organisation; Mr A. K. Kader Kutty; Mr M. A. Fazalbhoy; Mr G. M. Modi; Mr A. E. Feizullahbhai; Mr P. L. Tandon; Dr S. N. Ranade, President of the National Federation of Consumers' Co-operatives; Mr S. S. Mirajkar; Mr V. V. Dravid, President of the INTUC; Mr S. R. Vasavada of the Textile Labour Association; Mr G. Ramanujam, General Secretary of the INTUC; Mr Kanti Mehta, General Secretary of the Indian National Mine Workers' Federation; Mr Manohar Kotwal, General Secretary of the Hind Mazdoor Sabha; and Mr S. M. Patil.

NATIONAL EXHIBITION

An Indian National Exhibition is being organised in New Delhi from the middle of January next. It will highlight the progress made by India in economic, industrial, scientific and technological fields. The exhibition is being arranged to synchronise with the United Nations Conference on Trade and Development to be held in New Delhi from February 1 to March 25, 1968. Almost all export promotion councils, commodity boards, the Ministry of Information and Broadcasting, the Ministry of Defence, and various public sector undertakings are participating in the exhibition, which will have a floor space of 35,000 square feet.

ENGINEERING EXPORTS : W. GERMAN HELP

The West German government has agreed to help the Indian Engineering Export Promotion Council to push up Indian exports to West Germany and to western Europe. An agreement has been reached between the governments of the two countries for this purpose. It has been agreed to launch a project to be called "Vollrath Programme" under which West German experts will visit selected manufacturing units in our country and explore in collaboration with Indian experts the possibility of pushing up exports of Indian manufactures to western Europe. The programme also envisages that Indian experts will visit West Germany for intensive training.

FARM FINANCE BY PUNJAB NATIONAL BANK

The Punjab National Bank has entered the field of agricultural finance in a big way. Under a scheme launched by it, the bank will provide direct financial assistance initially to farmers owning 10 acres or more in eight selected districts of five states. The districts are Meerut and Nainital (Uttar Pradesh), Ambala in Uttar Pradesh, Ludhiana and Ferozepur in Punjab, and Karnal in Haryana, Muzaffarpur in Bihar, and Jodhpur in

Rajasthan. Loans will be made for short-term and medium-term purposes. Repayable within a period of one year, short-term loans will be given for purchase of inputs like seeds, fertilisers, pesticides, etc. Medium-term loans will be repayable in three to five years and will be extended for development of land, purchase of agricultural machinery and spares, providing irrigation facilities including sinking of wells, installation of tubewells, purchase of pumping sets and dairy development. The amount of loan to be granted to an individual agriculturist will be limited to 70 per cent of the cost of inputs and/or of the cost of agricultural implements subject to an overall maximum of Rs 20,000. Meanwhile, the bank has already provided to the Government of Punjab for procurement of foodgrains a limit of Rs 10 crores—probably the largest single limit provided by any private commercial bank to a state government. In addition, the bank has also taken lead in providing a huge limit of Rs 5.5 crores to the Punjab State Co-operative Supply and Marketing Federation for distribution of fertilisers to farmers in the state. In an exclusive interview to 'Eastern Economist', Mr S. R. Mohindroo, Deputy General Manager of the Punjab National Bank, elaborated the bank's future plans in the field of agricultural finance. However, Mr Mohindroo explained, much depended on the availability of suitably qualified and trained personnel to man this relatively new field of business. In any case, he was confident that after the experiment in these selected areas is tried for about six months more districts in several other states will be brought under the purview of the scheme.

INDO-BULGARIAN COLLABORATION

India and Bulgaria have agreed on an exchange of expert teams between the two countries to locate areas for expansion of co-operation and collaboration between the two countries. The decision was arrived at a meeting held between the visiting Bulgarian Minister for Machine Building, Mr Ivanov, and the union Minister for Industrial Development and Company Affairs, Mr Fakhruddin Ali Ahmed. There is, according to the Bulgarian Minister, scope for collaboration in fields such as ship-building, machine tools and diesel engines. He further indicated that certain machine tools such as six-spindle automatics, could be imported by his country. Certain samples of precision boring machines had been acquired by Bulgaria recently from India and these would be tried there.

Meanwhile, an agreement has been signed between an Indian firm, Indian Engineering and Commercial Corporation, and its Bulgarian collaborator, Technoexport, for the setting up of a food preservation plant. Besides providing machinery worth Rs 65 lakhs, Technoexport will also extend technical assistance. The proposed Rs 1-crore plant, which will preserve fruits, vegetables, meat and milk products, is expected to go into production by the end of 1968 or in early 1969. Bulk of the output of the plant will be meant for export.

COMPUTER CORPORATION

The Government of India is planning to set up a computer corporation with a view to screening the programmes which should be computerised without affecting the present employment position. In course of time, this computer corporation will also take up manufacture of equipment for computers in the public sector. Some of the fields in which computerisation is being introduced immediately are taxation, banking, aeronautics and defence, besides the life insurance business. Two H-400 medium Honeywell computers were commissioned last week in New Delhi for the processing of data on behalf of various central ministries and their allied offices. Eight more computers are proposed to be installed under the auspices of the Reserve Bank, the Atomic Energy Commission, Hindustan Aeronautics, the Indian Statistical Institute, the Oil and Natural Gas Commission and the Defence Ministry at Bombay, Bangalore, Calcutta, Dehra Dun and Poona. Four computers will be in service in the next six months. The rest are expected to

in India big business begins with ALLAHABAD BANK

Behind every Allahabad Bank man stands the experience, knowledge and integrity gained from over a hundred years of business.

Without any interruption for more than a century, Allahabad Bank has served its clients efficiently, reliably and with the friendly understanding that makes "Service" a special word at Allahabad Bank.

Whatever be your needs, Allahabad Bank experts are at your service to give you the answer in banking

Allahabad Bank, India's oldest Joint Stock Bank, is your gateway to better business.

For all types of Domestic and Foreign banking transactions contact:

SECRET

The oldest Indian Joint Stock Bank
ESTABLISHED 1865
ALLAHABAD BANK LIMITED
(Affiliated to the Chartered Bank)
Regd. Office: 14, India Exchange Place, Calcutta-1
S.P. PURI, Chairman W SMITH, General Manager

November 17, 1967

start operating by the end of October, 1968. All the 10 computers have been acquired by the government from Honeywell under a package deal costing \$7.5 million, inclusive of the cost of technical services and spares for five years. This nationwide network of computers will not be for the exclusive use of the government and the offices under the aegis of which they are being installed. Their services will also be available to others on payment. The computer to be installed at the Reserve Bank in Bombay, for instance, will be allowed to be used by all other banking institutions in the country. Honeywell, which is a one-billion-dollar sales giant producing and selling over 15,000 products, it is understood, is willing to collaborate with the Government of India in the manufacture of various defence items within, of course, the limits permitted by the present policy of the US government. It will be shortly going into the manufacture of the manufacture of equipment for computers in the public sector for which collaboration from it has been sought.

EXPORT OF RAILWAY WAGONS

Orders for coaches and wagons worth over Rs 15 crores have been received from Burma, east Africa, Hungary, Ceylon and South Korea as a result of efforts made jointly by the Development Cell for Railway Equipment in the Railway Board, the State Trading Corporation of India and the Rolling Stock Export Association. The order from east Africa relates to 247 wagons valued at Rs 1.6 crores. Last year, an order for 480 wagons from the East African Railways was executed by the Indian Railways. The railways have also tendered for 50 petrol tank wagons and 45 cattle wagons for the East African Railways.

IMPORT SUBSTITUTION IN RAILWAYS

The Indian Railways have achieved significant progress in import substitution. Production of coaching stock is completely indigenous, except for minor items like roller bearings. The indigenous content of AC locomotives being manufactured at the Chittaranjan Locomotive Works is about 60 per cent of their cost, and will rise to 80 or 90 per cent by 1970-71. The manufacture of diesel shunters has also started at this plant. The indigenous content of the diesel locomotives manufactured by the Diesel Locomotive Works at Varanasi is about 58 per cent. It will increase to 85 to 90 per cent by 1970-71, the balance being made up mainly of raw material which is not likely to be available in the country by then. In the manufacture of wagons, India has developed sufficient capacity not only to meet the country's own requirements but also to spare for export. The wagon-building industry has so far secured export orders of the value of about Rs 15 crores.

U.S. FOREIGN AID BILL

The long-stalled US Foreign Aid Authorisation Bill now goes to White House for Presidential approval after its passage on November 9 through both the House of Representatives and the Senate. While the bill received only marginal support in the House, the Senate passed it with voice vote. The \$2,874 million foreign aid authorisation was a compromise between the Senate and House of Representatives. It fell \$700 million short of Mr Johnson's request for economic and military assistance for non-communist nations around the world. The bill also orders the President to end development aid to countries if he finds they are diverting the funds or their own resources to "unnecessary military expenditures". The aid authorisation breaks down into \$2,164 million for economic assistance and \$510 million for military assistance.

RICE MILLS FROM JAPAN

The Government of India has contracted to buy from Japan 24 modern rice mills, each of four-ton production capacity per hour at Rs 15 to 16 lakhs a mill to replace old and outdated rice shellers in the country. This was stated at Chandigarh last week by Mr K. T. Chandy, Chairman of the Food Corporation

EASTERN ECONOMIST

911

of India. Initially, a couple of mills of two to four-ton production capacity an hour were proposed to be set up in Punjab, which produced about five lakh tons of paddy. Mr Chandy said Punjab alone needed about 25 modern rice mills. But it would take time to set them up.

JUTE FORWARD TRADING

The East India Jute and Hessian Exchange Ltd of Calcutta has been asked to suspend entering into forward contracts in jute goods for a further period of one week beginning November 10.

U.K. BANK RATE UP

The Bank of England raised its interest rate by a further one-half per cent on November 9 to 6½ per cent. The last increase of the same order was effected on October 19.

OUTPUT OF SEA FOOD

The union government is taking a number of steps to boost the production of sea foods which, apart from earning foreign exchange, may ultimately become the main source of protein for a majority of our population. Full utilisation of the present resources in the country can raise the annual production of marine fish by seven to eight times from 89 lakh tonnes and of inland fish by three times from 40 lakh tonnes, according to official estimates. At present the per capita consumption of fish in India is 7.5 grammes per day, the lowest in the world. Even to maintain the present meagre level of consumption, the growing population of the country will require 15.5 million tonnes by 1971 and 19 million tonnes by 1981. Lack of capital, technical know-how, harbour facilities, processing plants and an organised fish distribution system are stated to be the factors hampering a rapid increase in fish production. India is at present exporting sea foods worth about Rs 14 crores. Efforts are being made to boost the export and a target of Rs 40 crores has been fixed for 1970-71. Prawns account for 75 per cent of the exports. Lobster tails and frog legs are also popular in foreign markets. To afford better facilities, the government had recently transferred the control of three main organisations, engaged in the research for development of fisheries to the Indian Council of Agricultural Research. The government has also undertaken a programme of commercial exploitation of the hitherto unexploited off-shore region.

THE CALCUTTA ELECTRIC SUPPLY CORPORATION LTD.

(Incorporated in England)

5% RUPEE DEBENTURE STOCK, 1970

INTEREST FOR THE HALF-YEAR ENDING
31ST DECEMBER, 1967.

Notice is hereby given that interest at the rate of Rs 25/- (less Indian Income Tax) per Rs 1,000/- of stock will be paid on 1st January, 1968 to debenture Stockholders registered in the books of the Company on 19th December, 1967. Applications for transfers received at the Company's Office at Victoria House, Post Box 304, Chowringhee Sq., Calcutta, up to 19th December, 1967, will, if otherwise satisfactory, be registered at that date for the purpose of participation in the above interest.

Debenture Stock Transfer Books will be closed from 20th December, 1967 to 31st December, 1967 both days inclusive.

By Order of the Board,
D. P. M. Kanga,
Agent

Victoria House,
Calcutta, 9th November, 1967.

Company Affairs

BIRLA JUTE

A SPOKESMAN of the Birla Jute Manufacturing Company Ltd has stated that 75,000 (9.3 per cent) redeemable cumulative new second preference shares of Rs 100 each of the company have been admitted to trading in the Calcutta Stock Exchange with effect from November 7, 1967. The script will be quoted officially.

PHILIPS INDIA

Philips India Ltd will enter the capital market on November 20, 1967, with an issue of Rs 1.50 crores in 7.75 per cent debenture stock (first mortgage) 1977-82 in units of Rs 1,000 each at par for cash payable in full on application. The subscription list will close on November 29 or earlier at the discretion of the directors but not before November 22, 1967. The entire issue has been underwritten. The object of this issue is to provide finance for the company's development and expansion plans mainly pertaining to radio receivers, radio components, electrical measuring instruments, industrial measuring and control instruments. The company has been continuously engaged in the business of electric lamps and has been progressively expanding its activities to cover the manufacture and sale of a wide variety of incandescent and fluorescent lamps, lighting equipment, radios, a great variety of radio components, electronic measuring equipment, process and quality control equipment, scientific instruments, electro acoustic and telecommunication equipment and also the essential intermediate products and raw materials for these. The capital of the company is held by N. V. Philips' Gloeilampenfabrieken, Eindhoven, Holland to the extent of 69.23 per cent and the company, by virtue of the various technical assistance agreements with Philips-Holland, obtains the benefit of their research facilities and vast technical knowledge in the field of production of radio apparatus, radio components, lighting fittings and accessories, public address equipment and other articles. This has helped the company to make a valuable contribution to the development of the industries in which it is engaged.

STANDARD MOTOR

Standard Motor Products of India Ltd, will enter the capital market on November 20, 1967 with a public issue of Rs 12.50 lakhs in 125,000 ordinary shares of Rs 10 each. The subscription list will close on November 30 or earlier at the discretion of the directors but not before November 24, 1967. The company has an authorised capital of Rs 2 crores and issued, subscribed and paid-up capital of Rs 1.25 crores. The present issue is made up of Rs 25 lakhs in 250,000 ordinary shares. Out of the present issue, 52,500 ordinary shares of Rs 10 each have been reserved for Standard-Triumph International Ltd at par for consideration other than cash against supply of machinery and equipment and on receipt of shipping documents in respect of shipments of machine tools. As many as 72,500 ordinary shares of Rs 10 each have been agreed to be subscribed by managing agents, their associates and friends.

At present, the company is manufacturing Standard-20 one-ton trucks apart from Standard Herald cars. The licence given to the company covers manufacture of 1,500 trucks and the company has applied to the government for a licence to produce 3,000 trucks per year. The company is making necessary arrangements for the manufacture of dies required for the manufacture of four-door Herald cars. The body press shop is already in operation. The four-door Herald cars will be produced early next year. With production in full swing of Standard-20 chassis and the four-door Herald cars, the future earnings of the company will be encouraging. The company has

attained an indigenous content of 84 per cent in the manufacture of Standard-20 trucks and 88.85 per cent in Herald cars and it is expected to reach an indigenous content of 90 per cent in both the cases shortly. The above programme calls for a modest outlay of Rs 15 lakhs on fixed assets by way of investment in dies, tooling and balancing equipment, for the current year and the next two years. In order to cover a part of the financial requirement of the above programme the company has proposed to make the present issue of equity capital.

B.T. TOOLS

Bahco Taparia Tools Limited will soon enter the capital market with a public issue of Rs 36 lakhs, made up of Rs 21 lakhs in equity shares of Rs 100 each and Rs 15 lakhs in 9.5 per cent cumulative redeemable preference shares of Rs 100 each. The entire issue has been underwritten by LIC, IFC, ICICI and other financial institutions. The subscription list will open on November 24 and close on December 8, 1967. The authorized capital of the company is Rs 1 crore, comprising of Rs 50 lakhs in equities, Rs 15 lakhs in preference and Rs 35 lakhs unclassified shares. The paid-up capital is Rs 18.51 lakhs. The company will undertake the manufacture of quality forged hand tools like screw drivers, punches, chisels, nail pullers, adjustable wrenches, sockets and pliers at Nasik in the industrial estate set up by the Maharashtra government in collaboration with AB Bahco of Sweden. The total cost of the project is estimated at Rs 128 lakhs when fully developed and completed. Of this, Rs 13.27 lakhs are allotted for the buildings and Rs 79.19 lakhs for plant and machinery. The project will be financed by a share capital of Rs 60 lakhs consisting of Rs 45 lakhs equity and Rs 15 lakhs preference share capital and secured loans of Rs 62 lakhs. The balance will be provided by deferred payment on machineries and bank advances. The promoters have already taken up Rs 21 lakhs worth equity shares and the foreign collaborators are allotted equity shares worth Rs 3 lakhs free of payment in consideration of benefits of research and development. The factory buildings are nearing completion and are expected to be commissioned in January, 1968. The initial production will start with screw drivers with plastic handles to be followed by other items. The company hopes to declare a maiden dividend by 1970-71. The total turnover would be Rs 120 lakhs when the plant reaches full production. The company has the freedom to export to Asian and African markets about 20 per cent of its production.

COOPER ENGINEERING

Cooper Engineering Ltd has shown a substantial rise in its sales from Rs 6.13 crores to Rs 7.45 crores during the year ended June 30, 1967. The gross profit also increased from Rs 1.10 crores to Rs 1.22 crores. After providing Rs 34.50 lakhs for depreciation, Rs 19 lakhs for development rebate, Rs 6.25 lakhs for managing agents' remuneration and Rs 29.50 lakhs for taxation, the company has shown a higher net profit of Rs 32.79 lakhs against Rs 31.72 lakhs in the previous year. Provision no longer required has been of the order of Rs 7.27 lakhs, while provision for taxation for previous years has absorbed Rs 3.75 lakhs. The directors have proposed the payment of equity dividend of 12 per cent.

A.E.I.-G.E.C.

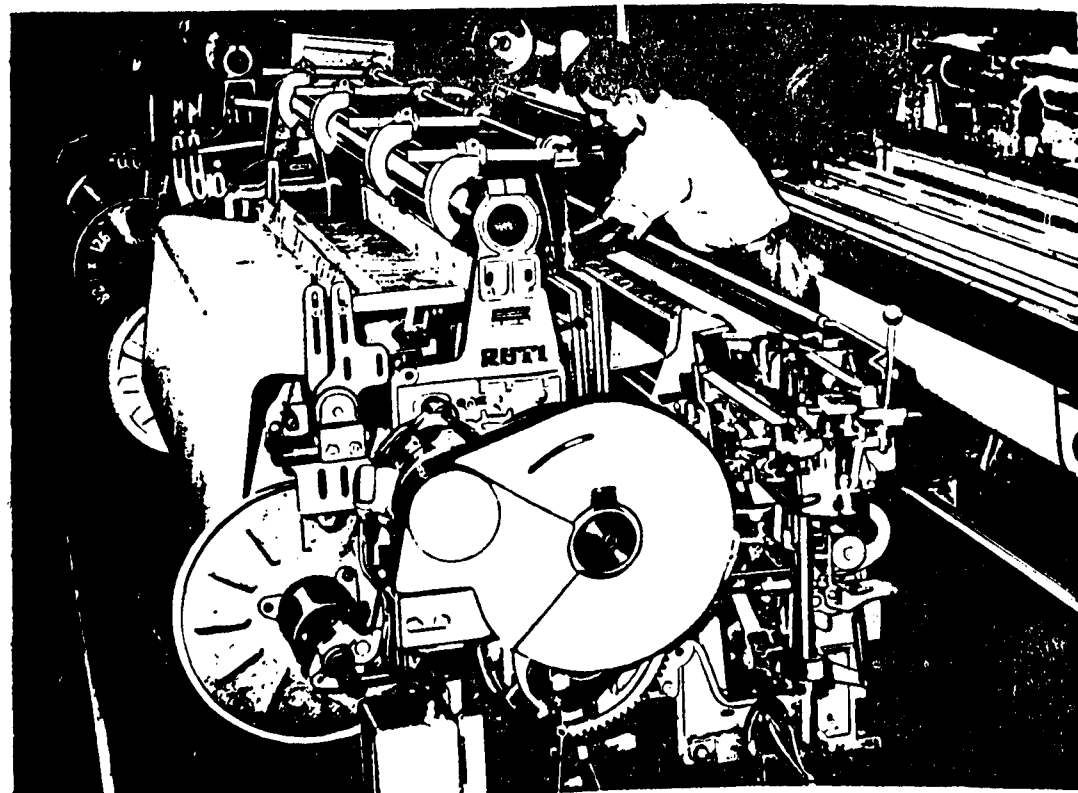
Associated Electrical Industries (AEI) and GEC have decided to merge recently. A press statement issued by AEI stated that "as a result of the offer made by the GEC Ltd for the common stock of AEI Ltd, which received the support of more than 50 per cent of the AEI Ltd, ordinary stockholders, the directors of GEC and AEI have discussed the future of the two com-

**GRINDWELL
ABRASIVES LIMITED,
THE PIONEERS AND LEADERS
OF THE GRINDING WHEEL INDUSTRY
IN INDIA
ARE PROUD TO ANNOUNCE
THEIR COLLABORATION WITH THE
NORTON COMPANY, WORCESTER, MASS. U.S.A.
THE WORLD'S LARGEST
ABRASIVE MANUFACTURERS.
THIS COLLABORATION
MARKS
A SIGNIFICANT
TECHNOLOGICAL BREAK-THROUGH
IN INDIAN INDUSTRY.**



**THE SHAPE OF THINGS
TO COME**

Weaving Masters all agree:



NII Healds and Reeds are trouble-free!

*From eye to eye of every heald, from dent to dent
of every reed, from hank to hank of every yarn...
quality is uniformly excellent in every New India product.
A detailed study of client needs and constant research
result in the kind of quality products
that make for better performance.*

**When quality counts,
you can count on
these NII brands:**

CYCLE BRAND Wire Healds,
All-metal Reeds, Jute Combs
and Jute Reeds



SWAR BRAND Egyptian Combed
Cotton Yarn and Staple Fibre Yarn
INDIA BRAND Best Egyptian
Cotton Healds, Heald Piecing Yarn,
Finest Polished Steel Wire Reeds,
Brass Reeds, Striking Combs and
Dobby Harness without rubber.

THE NEW INDIA INDUSTRIES LIMITED Baroda & Bombay

Stockists: B. Mehta & Co., Bombay, Calcutta, Coimbatore • Mehta Parikh & Co. Pvt. Ltd., Ahmedabad, Bombay,
W.H. Brady & Co. Ltd., Bombay, Madras, Calcutta • Hindustan Textile Stores, Bombay, for all-metal reeds only.

Also manufacturers of Agfa Cameras and Agfa Photographic Papers

CMNI-72

panies in a common desire to promote the interests of the stock holders and staffs of both companies and the electrical industry as a whole. The directors of both companies are agreed that the merger of the two companies should be carried out in the way best calculated to promote these interests. It has been agreed that proposals for the rationalization of the industry will be fully discussed between the representatives of both companies. GEC intend to invite the Managing Director of AEI Ltd, Sir Joseph Latham, to join the board of GEC as deputy chairman and also intend to invite certain other AEI directors, including Sir Charles Wheeler and Mr J. N. R. Barber to be directors of GEC.

MYSORE CEMENTS

Mysore Cements Ltd. has reported a higher gross profit of Rs 82.31 lakhs for the year ended June, 1967, against Rs 37.33 lakhs in the previous year. Sales have risen from Rs 1.42 crores to Rs 2.44 crores. The directors have proposed a dividend of 75 paise per share which absorbs Rs 13.50 lakhs. After adjustments against loss and expenses in the previous year and making other provision, there remains a net profit of Rs 35.72 lakhs. Depreciation gets Rs 21.93 lakhs and expansion reserve Rs 9.04 lakhs. Development rebate amounting to Rs 65.82 lakhs has to be provided for in subsequent years. Cement produced during the year was 213,000 tonnes and dispatches 209,000 tonnes. The USAID has sanctioned a loan of Rs 2.05 crores for expanding the capacity from 200,000 tonnes to 400,000 tonnes per annum. Orders for the supply of the main plant have all been placed and those for other ancillary equipment are being finalised. The company hopes to commission the plant by the end of next year.

DELHI CLOTH

The directors of Delhi Cloth and General Mills Ltd have decided to maintain the ordinary dividend at 12 per cent, for the year ended June 30, 1967. The company is understood to have earned a higher gross profit of Rs 762.45 lakhs against Rs 593.13 lakhs for the previous year. After providing Rs 297.63 lakhs for depreciation, Rs 48.89 lakhs for development rebate and Rs 172 lakhs for taxation, the net profit is substantially higher at Rs 244 lakhs. The adoption of straightline method of depreciation for the Kota unit from its very start in 1962 has resulted in a saving of Rs 113 lakhs.

INDIA CARBON

India Carbon Ltd has declared a taxable ordinary dividend of 16 per cent including an interim of six per cent for the year ended June, 1967, against a dividend of 10 per cent in the previous year. The gross profit has amounted to Rs 57.49 lakhs against Rs 29.15 lakhs. Depreciation gets Rs 10.50 lakhs, taxation Rs 26.52 lakhs and development rebate reserve Rs 25,000. Sales rose to Rs 2.20 crores from Rs 1.32 crores. The company has obtained a letter of intent for putting up a chemical plant in Bombay with foreign collaboration. It has undertaken a Rs 50-lakh programme for diversification and expansion at Noonmati, for which it has entered into a contract with an engineering firm for turn-key job.

NATIONAL RAYON

The earnings of National Rayon Corporation Ltd for the second half of 1967 are expected to decline substantially compared with those for the first half, according to its chairman, Mr Kasturba Lalbhai. The company's profitability during the first half of the year was quite satisfactory, but it was affected adversely by unfavourable trading conditions since July. The adverse turn of the market resulting in lower prices for rayon yarn was caused by sluggish demand. Meanwhile the company is pursuing its project for the manufacture of nylon-6 indus-

trial yarn. It has received a letter of intent in this connection and an industrial licence is expected shortly. The project, which is estimated to cost Rs 6.5 crores, will be financed by internal resources and borrowings. The plant to be set up with Japanese collaboration is expected to commence production after about three years.

INDIAN HUME PIPE

The Indian Hume Pipe Co. Ltd for the year ended June 30, 1967 recorded considerable progress. Prestressed concrete pipe division completed several important jobs including the water supply schemes for Bhavnagar and Surendranagar. The manufacture of prestressed concrete pipes for the Talchar thermal scheme in Orissa is almost complete. Besides, the company has received an order for pipes from the Delhi Municipal Corporation and the Fertiliser Corporation of India. The company's penstock division has nearly completed fabrication for the second stage of the Sharavathi Valley project and secured further contracts for the eighth line of the project. It will also fabricate, supply and erect steel liners for the Bassein Creek tunnel project at Kolshet near Thana. The fabrication of these liners is in progress and their erection is expected to start from January 1968. The company has been receiving inquiries for laying pipelines by its own process. Its factory in Libya has recently secured orders worth £20,000 for the ring-road project in that country. The progress of the company's subsidiary, National Rifles Ltd, has been slow on account of the delay in the release of the necessary foreign exchange. Meanwhile the directors have decided to purchase the factories of the Hindustan Sun Pipes Ltd at Ahmednagar and Karad.

EAST INDIA HOTELS

The East India Hotels Ltd has earned a profit of Rs 13.28 lakhs for the year ended March 31, 1967, against a loss of Rs 7.66 lakhs in the previous year after providing Rs 10.47 lakhs for depreciation. The total income of the company has risen appreciably to Rs 1.74 crores compared with Rs 59.15 lakhs in the previous year. The net profit after wiping out the total carry-forward loss of Rs 9.72 lakhs amounts to Rs 2.26 lakhs. The improved results have enabled the management to propose an interim dividend on preference shares during the current financial year. The company will soon complete arrangements for setting up a 400-room hotel at Nariman Point in Bombay. It is also finalising a programme of constructing luxury hotels in Calcutta, Madras and other places of tourist interest. It is negotiating a merger with Associated Hotels of India and Hotels (1938) Private Ltd.

CITRIC INDIA

Citric India Ltd, during the year ended March 31, 1967, recorded a loss of Rs 20.31 lakhs against Rs 13.94 lakhs in the previous year. The total deficit at the end of the year, after making adjustments, has amounted to Rs 40.49 lakhs. The arrears of depreciation at the end of the year amounted to Rs 45.67 lakhs and of preference dividends Rs 5 lakhs. The company's equity capital is Rs 60 lakhs and preference capital Rs 20 lakhs. The directors state in their seventh annual report that to put the company on a sound commercial basis by renovations and changes would entail a much greater capital outlay than was originally thought of. Since raising of such huge additional resources was found difficult, it was thought advisable to close the factory for the time being with a view to finding out a scheme to raise the necessary additional resources. The company is in a tight corner and unless some funds are generated by way of profit from the sale of converted citric acid from imported calcium citrate, it is difficult for the company to meet its obligations. Suitable approaches have been made to the institutions for grant of postponement of instalments fallen or falling due by the company along with interest charges.

CHAIRMAN'S STATEMENT

THE STATE TRADING CORPORATION OF INDIA LTD.

Extracts from the speech of Chairman, Shri B.P. Patel, at the
11th Annual General Meeting held in New Delhi on October 28, 1967.



Shri B. P. Patel

ECONOMIC DIFFICULTIES

The year under review was a period of exceptional stress and strain for the economy of the country. In June, 1966, hardly two months after the beginning of our financial year, the rupee was devalued. The event was of far reaching significance for the foreign trade of the country and its impact on the economy was profound. For a variety of reasons, including the time taken by the trade and industry to readjust itself to the new conditions and be prepared to work without export incentive scheme, devaluation has not yielded the desired results in the shape of giving a fillip to our exports. The export earnings in the 12 months from June, 1966 to May, 1967 have amounted to only \$1520.0 million showing a decline of \$189.0 million from \$1709.0 million in the period June, 1965 to May, 1966.

It is against this background that we have to review the performance of the Corporation during 1966-67. In the aftermath of devaluation it was extremely important for the Corporation to devote greater attention and extra effort to fulfil its vital role in the diversification of India's export trade by way of maintaining the existing markets, seeking new export outlets for both traditional and non-traditional products and generally assisting the private trade in exporting difficult-to-sell items. I am glad to say that the results of these efforts have been rewarding. A substantial increase in the Corporation's export in the prevailing conditions of the year when the country's exports have registered a distinct fall are indeed gratifying.

TRADING ACTIVITIES

Despite the unsettling effects of devaluation, the Corporation's exports during 1966-67 amounted to Rs 31 crores and exceeded the export programme of Rs 19 crores (marked up to Rs 28 crores after devaluation). In the short period following the bifurcation of the Corporation in October, 1963, its exports have registered a steady increase from Rs 8.8 crores in 1963-64 to Rs 13.10 crores in 1965-66 and to Rs 31 crores last year. The total trade of the Corporation amounted to Rs 156.42 crores during the year under review as against Rs 99.46 crores in the preceding year. The direct trade amounted to Rs 101.48 crores as compared to Rs 61.55 crores in 1965-66. Of the direct trade, exports accounted for Rs 31.0 crores, imports Rs 67.85 crores and internal trade Rs. 2.64 crores.

To facilitate the comparison of the Corporation's performance with that of the preceding years it would be necessary to convert the figures of trade in 1966-67 to the old value of the rupee. Thus converted, exports would be Rs 20.84 crores, imports Rs 45.47 crores and internal trade Rs 2.64 crores making a total of Rs 68.95 crores by way of direct trade during 1966-67 as against Rs 61.55 crores in 1965-66. In comparable unit value

of the rupee, exports increased by 59 per cent and the entire direct trade by 12 per cent over the previous year.

BUSINESS HIGHLIGHTS

The results of the groundwork done in the preceding years and the studies on foreign markets made for new trade opportunities have started bearing fruit and are by now crystallised into specific lines of advance. In the field of exports the export programmes fall into four groups, namely (1) Engineering goods, including, among other things, machine tools, railway rolling stock and manufactures of small industries; (2) Chemicals, drugs and pharmaceuticals; (3) Consumer goods, prominent items being (i) leather footwear and components, (ii) wigs, wiglets and other human hair products and (iii) woollen knitwear and textiles, and (4) bananas and fruit juices.

The pride of place during the year under report and thereafter goes to the successful negotiation of contracts and novel arrangements for the export of railway rolling stock to several countries on a massive scale and the commissioning of Corporation's wig factory in January 1967 which marks the establishment of a highly export-oriented wig industry in the country. We also achieved a break-through in the US markets for the export of leather footwear and components and started large scale export of bananas to distant markets.

I am particularly pleased to inform you of the results of our pioneering efforts to develop export of railway rolling stock from India. Substantial orders for the supply of railway wagons to a number of countries besides Hungary have been secured. As you will recall, the Corporation has a contract with M/s Nikex of Hungary for the supply of 500 flat 4-wheeler wagons valued at Rs 2.55 crores to be increased by a further supply of 1500 wagons by the end of 1970. The Corporation has recently won a global tender, in the face of fierce international competition, for the supply of 1100 railway wagons valued at about Rs 8 crores to the Korean National Railways. A distinctive feature of this successful export effort is that three private manufacturing firms will be participating under the aegis of the Corporation. The aggregate value of the export orders for the supply of railway rolling stock and equipment on the hands of the Corporation come to about Rs 20 crores. They cover quite a wide range to diverse destinations consisting of goods wagons to Hungary, tank cars to Ceylon, coal wagons and tank cars to South Korea, passenger coaches to Thailand and tank wagons together with loco spares to Burma. The development of exports in the field of railway rolling stock and equipment has a great future for India.

This programme has demonstrated the key role a strong state sponsored agency like the STC can play in furtherance of the government policy to boost exports, by way of co-ordinating

and strengthening the efforts of individual firms which by themselves are inadequate to cope with the complex requirements of the foreign buyers, and the finished product itself. For example, the establishment of assembling line at Maribor in Yugoslavia in collaboration with M/s Technopromet so as to marry the supply of major components from India with the components supplied from Yugoslavia, Hungary and Austria and to place the finished wagons on the rails to Hungary would hardly have been possible but for the co-ordinating and cementing agency of the STC. Similarly, outside the STC it was well nigh impossible to find an agency with the requisite capacity to conduct negotiations with several authorities, to enter into huge financial commitments, to take diverse risks, and to marshal a widespread network of organisation in India and abroad for undertaking the execution of Rs 8 crores contract for the supply of wagons and tank cars to South Korea.

In January 1967, we commissioned our export-oriented manufacturing unit for making wigs/wiglets and other human hair products at Ambattur near Madras. The factory has been set up with technical collaboration with a well-known Hongkong firm and is equipped with modern machinery for processing human hair into finished products. It was completed in a record period of less than one year and over 11,000 assorted pieces of wigs, wiglets and falls valued at over Rs 6 lakhs were manufactured and exported up to March, 1967 against a Rs 17 crores contract with M/s Fashion Tress of USA.

The wigs, wiglets and falls supplied by us were very well received by the American Fashion houses and the press and projected most effectively India's image as a supplier of fashion products of high quality and style for the most demanding market in the world.

Our leather footwear have come to enjoy an established position in the USSR and other East European countries. While these countries have provided a growing outlet for Indian leather footwear, the Corporation has been striving to introduce the products in Western Europe, USA and Canada. As a result of sustained efforts, the Corporation has made a successful entry into the highly competitive and sophisticated markets of the USA and Canada by securing an initial order of about Rs 3.3 crores for exports of leather footwear and components of cowboy shoes. We have gradually reached a stage where we can think of developing exports of not only components but also complete cowboy shoes to the USA and other markets.

Although India is the third largest producer of banana in the world, her exports have been small and confined to nearby countries in the Persian Gulf area. Shipments to distant markets beyond the Suez had not succeeded until the Corporation entered the field with three experimental shipments to the USSR during October to December, 1966. With experience so gained and by improving the production and packaging techniques, the Corporation has started exporting bananas on a large scale to the USSR. In the current season we have succeeded in initiating export of bananas to Japan as well. A programme has thus been developed with the help of co-operative societies to export bananas of the value of about Rs 66 lakhs in 1967-68 and increasing it to about Rs 3.5 crores by 1970-71.

During the year, the Corporation continued its efforts to develop exports of non-traditional products to entirely new markets. Exports of chemicals and chemical products increased from Rs 32 lakhs in 1964-65 to Rs 3.98 crores in 1966-67 and (to a similar increase in export of various kinds) those of engineering goods from Rs 33 lakhs in 1965-66 to Rs 1.3 crores in 1966-67.

In the fields of imports, the Corporation is required to arrange sometimes at short notice import of capital goods, raw materials and scarce commodities at international prices and

under difficult world market conditions. During the year imports of a number of items such as soyabean oil, sunflower oil, sulphur, raw asbestos, newsprint and art silk yarn were canalised through the Corporation. These import operations have been handled with efficiency, energy, skill and competence and have served the policy objective of the Government as reflected in removal of scarcity conditions and curbing the rising internal prices of commodities like edible oils, sulphur and mercury. In June, 1966, the Corporation was asked by Government to make arrangements for the import of soyabean oil from the United States, and sunflower oil from the USSR. The scheme involved purchase, storage and distribution of about 220,000 tons of edible oils valued at Rs 59.4 crores until June, 1968. This was a major operation in which the Corporation was brought in to lend a helping hand in meeting an emergency of unprecedented character. Imports of 62,330 tonnes of soyabean oil and sunflower oil valued at Rs 13.56 crores were arranged during the year under review. Since then purchases for another 109,000 tonnes valued at Rs 21.8 crores have been finalised.

Another aspect of our import operations to which I have to refer to is sulphur. In August, 1966, the traditional agencies had failed to supply the quantities which they were expected to make available and there was little hope of getting sulphur from other sources. There was an imminent danger of industry coming to a halt for lack of this essential chemical and because of the scramble for available stocks in the country, the prices of sulphur shot up from about Rs 350 per ton to over Rs 1400. In such a critical situation, the Corporation was called upon to find sulphur. After some initial difficulties, we succeeded in arranging within a period of six months or so, import of about 200,000 tonnes of sulphur to be supplied in 1967. The regular arrival of shipments and the prospect of further purchases have had the desired impact on the market and sulphur prices have since fallen steeply from Rs 1300-1400 per tonne in January/February 1966 to about Rs 600.

FINANCIAL RESULTS

During the year Corporation's business was Rs 156.42 crores and the gross profit together with commission, service charges, agency fees etc., amounted to Rs 7.20 crores. After meeting the expenses aggregating Rs 6.33 crores on establishment, contingencies, audit, depreciation, and other items, the profit before taxation amounted to Rs 2.34 crores and the net profit after taxation to Rs 87 lakhs. With certain transfers as between the Trade Development Reserve, the Fertilizer Development Reserve and the Staff Bonus Reserve, the available profit for appropriation works out to Rs 92 lakhs as compared to Rs 1.51 crores in 1965-66.

The shortfall in the net profits is more apparent than real and has been mainly caused by the technical position in accounting for the liability or gain arising out of the devaluation of the rupee and to a certain extent by the increase in interest charges. The profit position of the Corporation is likely to be enhanced in the current year as gains from devaluation will accrue on certain items of business which have to be booked for technical reasons during 1967-68.

The total establishment cost of the Corporation has necessarily gone up from Rs 1.04 crores in 1965-66 to Rs 1.39 crores in 1966-67 due to increase in its trading activities. We have endeavoured constantly to achieve economies in operations in every way possible and I am happy to say that despite this increase, the establishment expenses work out to only 0.9% of the total trade as compared to 1.0% in 1965-66.

Apart from the growing operations of the MMTC since the bifurcation of the STC in October, 1963, the total business of the Corporation has increased from Rs 9.2 crores in 1956-57 to Rs 156.42 crores last year. The Corporation's contribution to

the foreign exchange earnings of the country amounts to Rs 250.10 crores (including those from exports to rupee payment countries). It is a source of considerable satisfaction to us that the financial results of the Corporation have been most rewarding to the community and to the public exchequer. On a paid-up capital of Rs 1 crore to start with in 1956-57 and rising to Rs 2 crores by 1958-59 and onwards, the Corporation has, since its inception in May 1956, contributed to the public exchequer as much as Rs 20.94 crores (Income tax about Rs 19.09-crores and dividend on capital Rs 1.85 crores) and has built up reserves to the extent of Rs 11.31 crores.

FUTURE PROSPECTS

In a situation where our foreign trade suffers from certain structural weaknesses on the one hand and problems like that of leakages of foreign exchange on the other, the induction of a Government sponsored agency having the requisite resources and experience to supplement the efforts of the private trade would go a long way in accelerating the growth of the country's foreign trade. The association of the Corporation with the private trade in the matter of procurement of bulk materials and other essential import items can, without affecting the genuine requirements of trade and industry, ensure better returns for a given amount of foreign exchange.

Unlike many other public sector companies, by the very nature of its trading operations, the business of the Corporation is not limited to specified commodities. It has been operating on a broad canvas covering numerous commodities and a number of countries. During the year under report for example it traded in 108 commodities with 60 countries. As a result of its efforts since its inception some 108 new items have been introduced for the first time to 41 countries. Some of these items have now found an abiding place in the list of exports to these countries.

Another fact of our trading to which I may refer briefly is that our initial exports of leather footwear, garments, woollen knitwear etc. to the East European countries under rupee payment agreements have helped build a progressively efficient industry in the country. With the production base so created, it has been possible to venture into Western markets with satisfactory results.

During the current year, the Corporation has an export programme of Rs 45 crores and if implemented fully, it would constitute an increase of 45.6 per cent over 1966-67. By the end of the Fourth Plan, we hope to raise our annual exports to about Rs 90 crores and our contribution to the country's export earnings to Rs 30 crores for the Fourth Plan period.

The Corporation is trading house and has, therefore, to depend on manufacturing-firms in the country for the supply of products for export. Like other developing countries we have yet to build powerful export houses with a net-work of offices at home and abroad and often experience frustration when trying to compete with well-entrenched foreign firms. It is here that the Corporation can play a vital role.

The current recession in the Indian engineering industry had made the firms somewhat more conscious of the export opportunities which they had not cared to look at when the domestic demand was booming. Export markets are secured by the expenditure of much sustained effort and money. It will not carry us very far if we think of overseas markets only in periods when domestic demand recedes. Both as a part of national effort and as an act of self-preservation for themselves, it would be only proper that the manufacturers in India particularly those who have been availing of the scarce foreign exchange come forward to earmark a portion of their production essentially for export. To those who do, it will be the earnest

endeavour of the Corporation to accord the highest priority, in its varied measures of assistance and support.

In commercial transactions, particularly in the field of foreign trade, the terms of contract are confidential between the contracting parties and cannot be made public without harming the interests of the contracting parties and in not a few cases even the trading interests of our country. Inasmuch as the operations of the Corporation have to be conducted in full public gaze and subject to scrutiny of numerous outside authorities, it places the Corporation, if I am say, under a handicap vis-à-vis private firms. This is not to suggest that the Corporation should be absolved from its responsibility to the Government and the Parliament or responsiveness to legitimate criticism by the public. Accountability to the Government and Parliament has to be accepted. But at the same time, it is necessary to balance these requirements with the need to maintain basic conditions for effective functioning and safeguarding the reputation of a public sector undertaking in the highly competitive field of foreign trade. Towards this end, I think individual business transactions of the Corporation need to be treated scrupulously as of confidential character and should not be subjected to public disclosure and discussions save in very exceptional circumstances.

In conclusion, I would like to say that we do not claim to be perfect and are ever conscious of the need to profit from experience and constructive criticism based on facts. All that we would plead for is an understanding and co-operation in working together in the common interest of the private trade and the community.

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

THE BRITISH INDIA CORPORATION LTD. KANPUR

LALIMLI AND DHARIWAL

Pure-Wool Products

- * Superior Quality Woollen & Worsted Suiting Cloths
- * Knitting Yarns
- * Woollen Hosiery Goods
- * Blankets & Rugs
- * Ladies Coating Materials
- * Uniform Materials
- * Blazer Cloths & Flannels
- * Tweeds

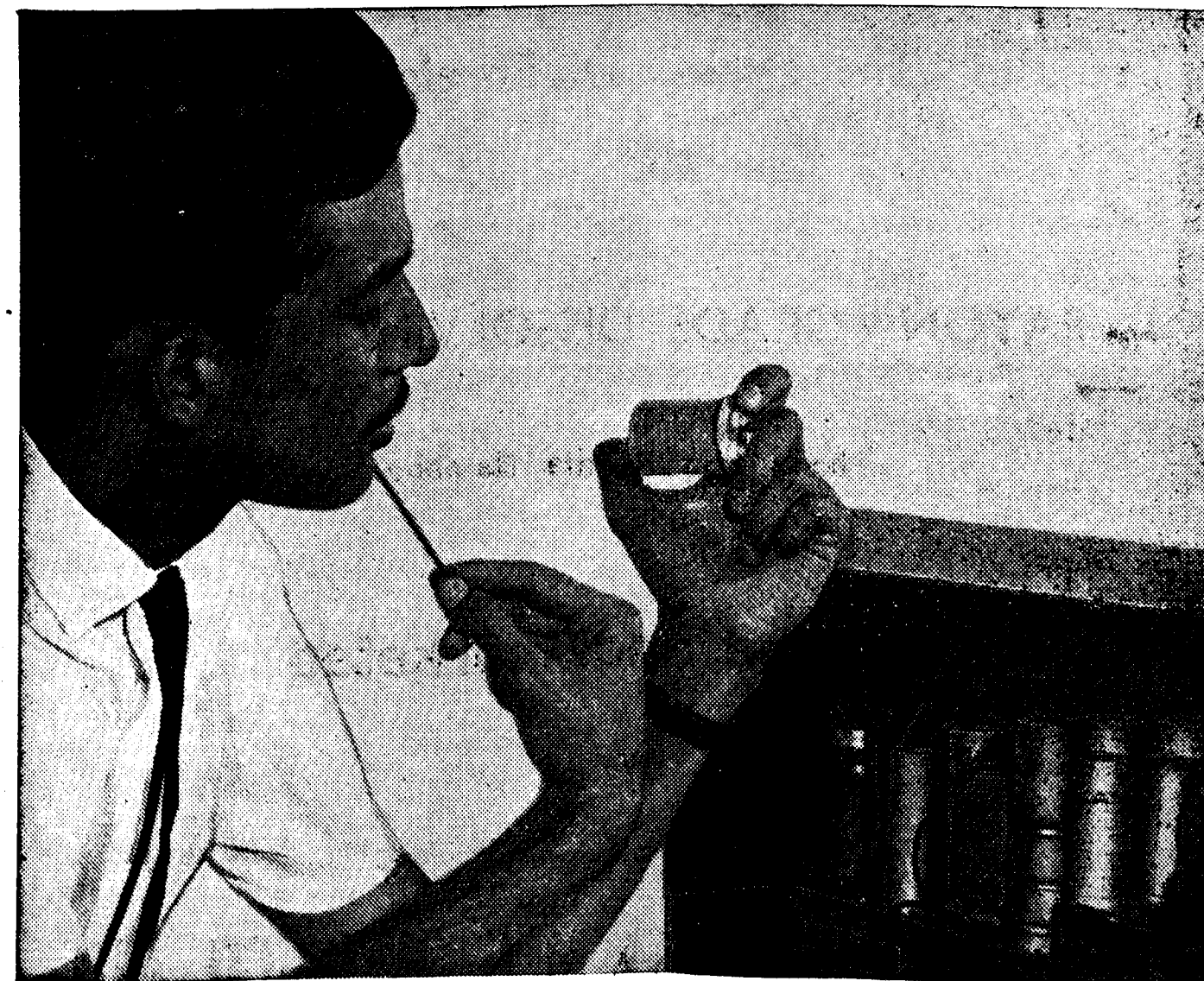
FLEX

Famous Footwear

- * Strong, Stylish and Durable Shoes for the Whole Family

N. W. T.

- * Leather Handbags and Travel Goods to Last You a Life-Time



INDIA FOILS — THE INNOVATORS FOIL FOR CAPACITORS

ESSENTIAL FOR A RS. 330 CRORE ELECTRICAL INDUSTRY

Invisible but indispensable. This is the role of aluminium foil in the electrical industry. Al Foil, precision rolled to 0.006 mm. in thickness, wound in multiple layers, forms the cartridge for electrical capacitors—storing and releasing the electrical charge with unfailing regularity throughout the life of the equipment. The foil, although concealed, is a vital component of a whole range of electrical products—from telecommunication equipment for defence to consumer durables like telephones, radios, fluorescent lamps, fans etc. It also plays its part in the cable industry, so vital for rural electrification and the nation's economic progress. Every year India

Foils supplies the electrical industry more than 1,20,000 Km. of aluminium foil for capacitors. Foil for Defence: India Foils was the first to experiment with and innovate a package to keep food fresh and wholesome at high altitudes for our Jawans on remote Himalayan outposts. The Company also manufactures moisture vapour barrier packing materials to pack and preserve ammunition, electronic equipment and vital mechanical and electrical spares and components for defence equipment. Foil Packaging for the Pharmaceutical Industry: India Foils supplies a wide range of packaging material indispensable to the pharmaceutical

industry in the country. This includes heat-seal strip pack for more than 1,200 million tablets and vial cap-strip to preserve 150 million vials of antibiotics. Foil for Tea: Tea, the second largest export earner needs foil for protection. Each year India Foils supplies enough aluminium foil for tea chest lining to protect and preserve over 330 million Kg. of tea. Foil for Food: Protecting and preserving food is vital for the nation. Each year India Foils supplies over 50 lakh square metres of aluminium foil to the food industry, so that good, uncontaminated food and dairy products are available to millions of people.

India Foils Limited
(Incorporated in Great Britain)



Calcutta New Delhi Bombay Madras

90C-000

To Plug The Drain Of Foreign Exchange

use

RAYON - GRADE DISSOLVING PULP

based on Kerala Bamboo

produced and marketed

by

THE GWALIOR RAYON SILK MFG. (WVG.) CO., LTD.,
(Pulp Division)

Birlakootam—Kozhikode

Gram: 'WOODPULP', Calicut.

Phone: 3971-74

Mg. Agts: Birla (Gwalior) Pte Ltd, Calcutta

Regd. Office : Birlagram, Nagda (M.P.)

RECORDS AND STATISTICS

Revised Series of National Product

THE CENTRAL Statistical Organisation (CSO) has just released the "Brochure on Revised Series of National Product for 1960-61 to 1964-65" giving the estimates of net national product at factor cost, also known as national income, at current and constant (1960-61) prices. The estimates at constant (1960-61) prices have been obtained by evaluating the product of various industries at prices prevailing in 1960-61. This revised series replaces the estimates of national income compiled by the same organisation and published annually in the "Estimates of National Income".

According to the revised estimates, the net national product at factor cost (i.e. national income) increased from Rs 13,453 crores in 1960-61 to Rs 20,424 crores in 1964-65 at current prices

indicating an increase of 51.8 per cent over the period whereas the corresponding estimates at 1960-61 prices showed an increase of 20.6 per cent. The per capita net national product at factor cost (i.e., per capita income) at current prices, increased from Rs 310.0 in 1960-61 to Rs 427.1 in 1964-65, showing an increase of 37.8 per cent as against an increase of 9.4 per cent at 1960-61 prices. The gross national product at current market prices increased from Rs 15,137 crores to Rs 23,308 crores during the same period.

The share of the public sector in the net domestic product at factor cost increased from Rs 1,453 crores in 1960-61 to Rs 2,424 crores in 1964-65 showing thereby an increase from 10.7 per cent to 11.8 per cent of the total. During this period the direct taxes increased from Rs 420 crores to Rs 762 crores. The gross fixed capital formation by public authorities (consisting of administration and enterprises) increased from Rs 717 crores in 1960-61 to Rs 1,138 crores in 1964-65.

NATIONAL PRODUCT AT CURRENT AND 1960-61 PRICES

	1960-61	1961-62	1962-63	1963-64	1964-65*
(Rs crores)					
At Current Prices					
Net domestic product (at factor cost) ...	13525	14413	15287	17679	20572
Net factor income from abroad ...	—72	—98	—108	—116	—148
Net national product (at factor cost) ...	13453	14315	15179	17563	20424
Allowance for depreciation ...	736	810	930	991	1100
Gross national product (at factor cost) ...	14189	15125	16109	18554	21524
Indirect taxes less subsidies ...	948	1080	1265	1566	1784
Gross national product at market prices ...	15137	16205	17374	20120	23308
At 1960-61 Prices					
Net domestic product (at factor cost) ...	13525	14133	14439	15216	16362
Net factor income from abroad ...	—72	—96	—110	—115	—143
Net national product (at factor cost) ...	13453	14037	14329	15101	16219
Allowance for depreciation ...	736	785	881	912	968
Gross national product (at factor cost) ...	14189	14822	15210	16013	17187

* Preliminary.

COMPARISON OF MOVEMENT OF NET NATIONAL PRODUCT (AT FACTOR COST)

(at current and constant prices)

	1960-61	1961-62	1962-63	1963-64	1964-65*
Net national product (Rs. crores)					
At current prices ...	13453	14315	15179	17563	20424
At 1960-61 prices ...	13453	14037	14329	15101	16219
Per capita net national product (Rs.)					
At current prices ...	310.0	322.3	332.9	376.1	427.1
At 1960-61 prices ...	310.0	316.0	314.2	323.4	339.2
Index number of net national product with 1960-61 as base					
At current prices ...	100.0	106.4	112.8	130.6	151.8
At 1960-61 prices ...	100.0	104.3	106.5	112.2	120.6
Index number of per capita net national product with 1960-61 as base					
At current prices ...	100.0	104.0	107.4	121.3	137.8
At 1960-61 prices ...	100.0	101.9	101.4	104.3	109.4

* Preliminary.

PERCENTAGE INCREASE IN NET PRODUCT
(at 1960-61 prices)

	1961-62	1962-63	1963-64	1964-65	1964-65
	1960-61	1961-62	1962-63	1963-64	1960-61
Agriculture	2.2	-2.2	1.9	9.4	11.4
Forestry and logging	7.1	...	4.4	5.3	17.8
Sub-total	2.3	-2.2	2.0	9.3	11.6
Mining and quarrying	5.6	13.2	9.9	-2.1	28.5
Large-scale manufacturing	10.1	9.4	9.7	8.7	43.6
Small-scale manufacturing	8.0	3.9	8.5	5.5	28.5
Construction	1.6	4.6	10.5	2.9	20.8
Electricity, gas and water supply	15.9	12.5	21.1	10.1	73.9
Sub-total	7.4	7.0	9.9	6.0	33.9
Transport and communication	7.9	7.2	7.6	4.4	29.8
Trade, storage, hotels and restaurants	6.5	5.1	7.6	7.2	29.1
Sub-total	6.9	5.8	7.6	6.3	29.3
Banking and insurance	13.3	7.3	7.3	2.4	33.5
Real estate and ownership of dwellings	2.9	3.3	3.4	2.8	13.0
Public administration and defence	9.0	12.9	15.5	9.7	55.8
Other services	3.8	4.5	3.9	4.2	17.4
Sub-total	5.8	6.9	7.5	5.6	28.3
Net domestic product	4.5	2.2	5.4	7.5	21.0
Net national product	4.3	2.1	5.4	7.4	20.6
Per capita net national product	1.9	-0.6	2.9	4.9	9.4

She is
a working girl
and a
saving girl too!

She earns...and she saves. She's the modern girl. A girl who looks to the future with confidence. Naturally. She knows her savings are growing steadily in the State Bank.

State Bank for Service



Are Gheraos & Lawlessness THE CAUSES OF ECONOMIC UNCERTAINTY, Falling Production And Unemployment?

Here is What Employers Themselves Believe

D. D. YOUNG

Managing Director, Associated
Electrical Industries (India) Ltd.

REFERRING to the labour unrest in West Bengal, Mr. D. D. Young, Managing Director, Associated Electrical Industries (India) Ltd., observed:

"Because of the paucity of business, retrenchments and lay-offs have been resorted to by the establishments concerned, and hence the relations between the managements and labour are strained. Under similar circumstances such a state of affairs would have prevailed in any other part of the world".

"The primary cause of labour unrest is, therefore, to be traced to difficulties on the business front", he added.—*Economic Times*, April 20, 1967.

A BUSINESS JOURNAL'S ADMISSION

Economic Times, October 13, 1967

"AS for the engineering industry, which is worst-hit by recession the trouble is bound to start anew. Apart from the question of bonus this sector of the industry has not found itself in a position to keep up the workers' roll evenly in view of lack of orders.

In a way, there is a feeling in industrial circles that strikes, lay-offs, lockouts and closures due to gherao or otherwise had come as an escape for the companies, which had been hard-pressed to reduce working and shifts due to recession."

AN EXPERT'S OPINION

"THE recession had been created by industrialists themselves. They were the persons who wanted a balanced budget, a small plan and even winding up of the planning Commission."—Dr. P. Natarajan.

Indian Express, August 30, 1967.

IAN A. MACPHERSON

Chairman, The Calcutta Electric
Supply Corporation Ltd.

AFTER two years of drought the Indian economy is at present under severe strain. Food scarcity and rising prices increasingly threaten political stability and large sections of industry now find themselves menaced by a recession which the economic measures taken by the Government of India in the recent past have unhappily not arrested. Government itself has had to decide to cut back on its investment and this in turn has had repercussions on industry in the private sector, particularly the engineering industry. The consequent retrenchment and lay-off coupled with food scarcity and general inflation have resulted in such a serious deterioration of industrial discipline as to jeopardise the preservation of law and order.

Review—20th Sept. 1967.

G. D. BIRLA

"WE must also admit that we are passing through a very, very serious crisis—an economic crisis—at present. There is a collapse in the economy of the country. . . . The administration in Delhi is bewildered. Delhi has been paralysed. This is the situation at present."

(Speech at 24th Annual Session of Engineering Association of India).

—*Economic Times*, February 14, 1967.

JESSOP & CO.

Chairman's statement, March 31, 1967

"THE production targets of the Planning Commission have now proved to have been based rather on an optimistic than a realistic assessment of the economic trends. All this has created a crisis in the engineering industry. The wagon building and structural fabricating sections of the industry, in particular, are facing a virtual closure. This will inevitably lead to a heavy lay-off of labour in the very near future, adding to the prevailing problems of unemployment and unrest in the country. In this situation, with so much idle capacity, it is indeed strange, if not inexplicable, that licensing of additional capacity, more particularly in the public sector, has not been halted."—*Economic Times*, September 15, 1967.

FEDERATION OF INDIAN
CHAMBERS OF COMMERCE
& INDUSTRIES

'Industrial Recession—Causes and Cures'

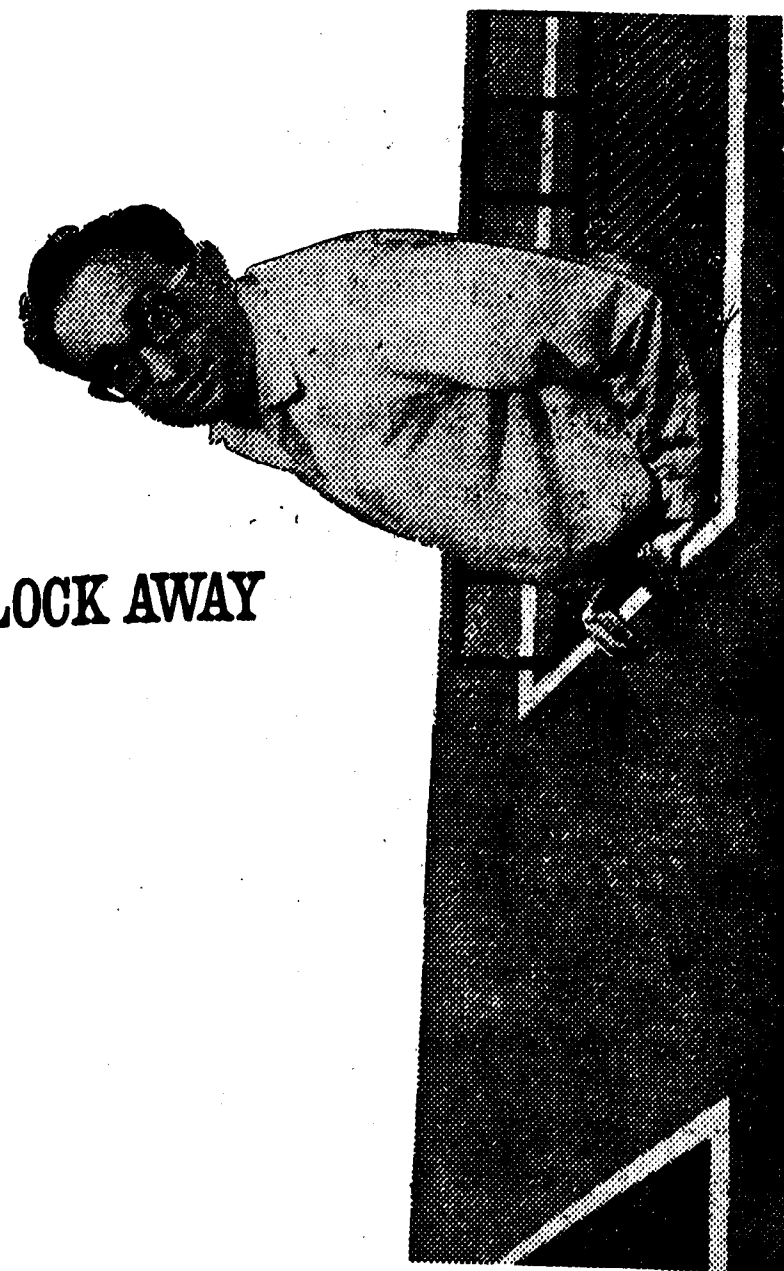
TRADITIONAL industries like cotton, jute and coal are passing through a critical period. But the worst hit have been the engineering industries. There is growing imbalance between production and demand resulting in under-utilisation of capacity and accumulation of stocks. The overall situation is characterised by business uncertainty, smaller investment, low production and increasing idle capacity, reduced exports, increased labour and material costs, financial difficulties and above all, greater unemployment. . . . Over 23,000 workers in 95 establishments are said to have been laid off in West Bengal between 1st January and 15th March, 1967. An additional 1,000 were retrenched in 49 establishments. Still another 700 became unemployed as a result of 8 concerns closing down.

CAUSES OF RECESSION:

- Steep increase in the prices of agricultural commodities. . . .
- Reduction in some of the productive expenditure of public and private sectors. . . .
- (a) . . . Smaller exports and consequently smaller demand for industries which were catering for export market directly or indirectly.
(b) . . . Rather liberal use of foreign aid which have naturally curbed demand for indigenous products.

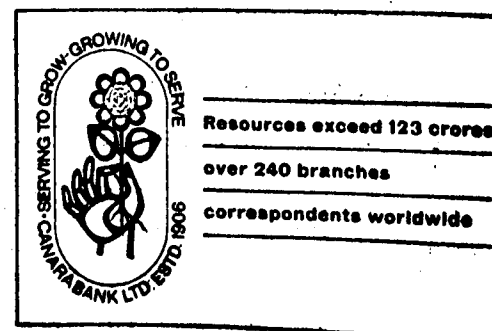
Don't Fight Your Own Workers.
Fight The Policies of Recession

GOVERNMENT OF WEST BENGAL



MOHANUR IS JUST A BLOCK AWAY

Where is Mohanur? Mohanur is a small township in Madras State with a population of less than 10,000. Perhaps, you have never heard of it, but the Canara Bank has a branch there. Always striving to bring the benefits of banking to small towns and unbanked areas, the Canara Bank now boasts a network of more than 240 branches—spread all over the country. Continuing in these efforts the Canara Bank has also an ambitious programme for the future, that people everywhere may enjoy prosperity and security through saving with the Canara Bank.



CANARA BANK LTD.
 Regd. Office: Lighthouse Hill, Mangalore.
 Admn. Office: 112, Jayachamarajendra Road,
 Bangalore.

8157A-02-20

SHARE OF PUBLIC SECTOR IN GENERATION OF DOMESTIC PRODUCT (At current prices)

					(Rs. crores)				
Item					1960-61	1961-62	1962-63	1963-64	1964-65
Net Domestic Product					13525	14413	15287	17679	20572
Public sector					1453	1632	1877	2179	2424
Private sector					12072	12781	13410	15500	18148
Gross Domestic Product					14261	15223	16217	18670	21672
Public sector					1569	1763	2037	2351	2629
Private sector					12692	13460	14180	16319	19043
Percentages									
Net Domestic Product					100.0	100.0	100.0	100.0	100.0
Public sector					10.7	11.3	12.3	12.3	11.8
Private sector					89.3	88.7	87.7	87.7	88.2
Gross Domestic Product					100.0	100.0	100.0	100.0	100.0
Public sector					11.0	11.6	12.6	12.6	12.1
Private sector					89.0	88.4	87.4	87.4	87.9

GROSS AND NET PRODUCT FROM PUBLIC SECTOR (At current prices)

												(Rs crores)	
Government administration			Departmental enterprises			Non-departmental enterprises			Total public sector				
Gross product	Allowance for depreciation	Net product	Gross product	Allowance for depreciation	Net product	Gross product	Allowance for depreciation	Net product	Gross product	Allowance for depreciation	Net product		
1960-61	744	744	611	64	547	214	52	162	1569	116	1453		
1961-62	834	834	669	60	609	260	71	189	1763	131	1632		
1962-63	936	936	748	73	675	353	87	266	2037	160	1877		
1963-64	1085	1085	839	74	765	427	98	329	2351	172	2179		
1964-65	1233	1233	891	84	807	505	121	384	2629	205	2424		

INDIAN RED CROSS SOCIETY

What is the Indian Red Cross Society?

Established in 1920, the Indian Red Cross Society is a voluntary humanitarian organisation devoted solely to bringing about improvement in health, prevention of disease and mitigation of suffering of all sections of society.

What does the Indian Red Cross Society do?

Relief Activities: Service to Armed Forces during the national emergencies *Maternity and Child Welfare Services *First Aid Services *Health Education *Promotion of Blood Banks *Nursing Services.

How can you help the Red Cross Society?

- * By enrolling as a member of the Society
- * By contributing towards the Red Cross funds
- * By assisting in the realisation of the Red Cross programmes.

Donate now and donate generously and become member of the Red Cross

INDIAN RED CROSS SOCIETY

1 Red Cross Road,
 New Delhi-1.

NET DOMESTIC PRODUCT BY INDUSTRY OF ORIGIN
(At current prices)

Industry	(Rs. crores)				
	1960-61	1961-62	1962-63	1963-64	1964-65 (preliminary)
Agriculture	6707 (49.6)	7010 (48.6)	7196 (47.1)	8473 (47.9)	10155 (49.4)
Forestry and logging	169 (1.2)	194 (1.3)	199 (1.3)	225 (1.3)	254 (1.2)
Fishing	78 (0.6)	87 (0.6)	86 (0.5)	95 (0.5)	108 (0.5)
Sub-total	6954 (51.1)	7291 (50.5)	7481 (48.9)	8793 (49.7)	10517 (51.1)
Mining and quarrying	144 (1.1)	149 (1.0)	178 (1.2)	204 (1.2)	208 (1.0)
Large-scale manufacturing	1070 (7.9)	1177 (8.2)	1300 (8.5)	1519 (8.6)	1700 (8.3)
Small-scale manufacturing	785 (5.8)	863 (6.0)	937 (6.1)	1091 (6.2)	1185 (5.8)
Construction	626 (4.6)	661 (4.6)	705 (4.6)	801 (4.5)	907 (4.4)
Electricity, gas and water supply	69 (0.5)	76 (0.5)	86 (0.6)	107 (0.6)	126 (0.6)
Sub-total	2694 (19.9)	2926 (20.3)	3206 (21.0)	3722 (21.1)	4124 (20.1)
Transport and communication	583 (4.4)	655 (4.6)	736 (4.8)	807 (4.6)	875 (4.2)
(i) Railways	252 (1.9)	280 (2.0)	312 (2.0)	352 (2.0)	356 (1.7)
(ii) Communication	64 (0.5)	73 (0.5)	82 (0.5)	93 (0.5)	102 (0.5)
(iii) Transport by other means	267 (2.0)	302 (2.1)	342 (2.3)	362 (2.1)	417 (2.0)
Trade, storage, hotels and restaurants	1301 (9.6)	1387 (9.6)	1492 (9.8)	1700 (9.6)	2069 (10.1)
Sub-total	1884 (14.0)	2042 (14.2)	2228 (14.6)	2507 (14.2)	2944 (14.3)
Banking and insurance	158 (1.2)	183 (1.3)	224 (1.5)	249 (1.4)	289 (1.4)
Real estate and ownership of dwellings	384 (2.8)	403 (2.8)	443 (2.9)	511 (2.9)	552 (2.7)
Public administration and defence	547 (4.0)	602 (4.2)	680 (4.4)	799 (4.5)	915 (4.4)
Other services	904 (6.7)	966 (6.7)	1025 (6.7)	1098 (6.2)	1231 (6.0)
Sub-total	1993 (14.7)	2154 (15.0)	2372 (15.5)	2657 (15.0)	2987 (14.5)
Total net domestic product	13525 (100.0)	14413 (100.0)	15287 (100.0)	17679 (100.0)	20572 (100.0)

Note: Figures in brackets are percentage distribution.

EASTERN ECONOMIST

NOVEMBER 24, 1967

Government Must Govern	931
The £ Pounded	933
Slackness in Demand for Cement	934
Literacy and Economic Growth	936
The Fourth Five-Year Plan	
—K. Santhanam	937
Statistics and Planning of Agricultural Programmes—L. L. Sarin	938
Model Contracts for International Trade—Manubhai Shah	945
Why Britain Can't Afford Common Market—Paul Einzig	947
Trading with Tokyo—A Correspondent	949
WINDOW ON THE WORLD	950
Wage Costs in the EEC.	
PROSPECTUS ANNOUNCEMENT	952
Brooke Bond India Limited.	
THE MOVING FINGER WRITES	955
TRADE WINDS	956
Devaluation of Pound Sterling; 12 Other Currencies Devalued; Indo-W. German Communique; Consortium Aid; Bank Statistics; No Deficit Financing So Far; Conference of Tax Executives; IFCTI Meet Concludes; Study Team for Fertiliser Corporations; Ministerial Changes; Co-operative Industrial Estates; ITI Production Doubles; Road Transport Wage Board; Electricity Undertakings Wage Board; Nepal to Nationalise Life Insurance; Indo-Iran Trade Pact; National Defence Fund.	
COMPANY AFFAIRS	964
Brooke Bond; Indian Explosives; Andhra Foundry; Jyoti Switchgears; Pilsner Breweries India; Dharamsi Morarji Chemical; Shree Gopal Industries; Coromandel Fertilisers; Mysore Kirloskar; Kirloskar Electric; Incheck Tyres; Automobile Products; Premier Automobiles; Indian Detonators; Sylvania and Laxman; Madras Rubber Factory; Unit Trust Sale Price; Capital and Bonus Issues.	
BOOKS BRIEFLY	969
For Better Management; Marketing of Commodities.	
RECORDS AND STATISTICS	972
Foreign Collaborations.	
ANNUAL SUBSCRIPTION	
INLAND: Rs. 70.00	
FOREIGN: £6-0-0 or \$17-00	
Airmail & Advertisement Rates on Enquiry.	
REGISTERED OFFICE:	
UCO Bank Building, P. Box 34, Parliament Street, New Delhi-1.	

Government Must Govern

THE DISMISSAL of the "united front" ministries in West Bengal and Haryana is the first act of firm and good government which Mrs Indira Gandhi may be credited with since she became the Prime Minister of India in January, 1966. The really unsettling effect of the last general election was not that it drove the Congress party out of some of the corridors of power, but that it seemed to have demoralised it to such an extent that it might not be able to rule effectively from the centre even if it had managed to retain the necessary majority in Parliament to do so. The position was not improved by the corrosive criticism of Rajaji, not to speak of the destructive diatribes of lesser demagogues who were rash enough or foolish enough to want to turn the discomfiture of the Congress party into an enfeeblement of the institution of the central government itself. It is, therefore, a matter for relief that Mrs Indira Gandhi and her colleagues in the central cabinet and the Congress hierarchy have been able to recognise in time—and act in the knowledge—that it is both the right and the duty of the central government to assert its constitutional overlordship for upholding good government, including all that it means, particularly law and order and national security. We hope that now at least the fanatics of federalism in our midst would realise that our federal constitution can mean no other than that there can be only a devolution or delegation of powers from the centre to the states and certainly no division in those areas of government in which are located the basic issues of good government, such as internal law and order and national defence.

Irrespective of whether we happen to approve or disapprove of the party in power at the centre on any given occasion, it is therefore incumbent on everyone of us who desires to see this country exist as a nation united in one political community to support and sustain and indeed demand and insist upon the exercise by the Government of India of its direct as well as ultimate responsibility to ensure that the administration does not break down or even become disreputable in any part of our country. It has been suggested that the central government has violated constitutional precepts, provisions or practices by ordering the dismissal of the ministries in West Bengal and Haryana. This criticism was only to be expected and those who swear by the Constitution in this manner should not flee from the fact that, if their protest or grievance is genuine, they are not without access to constitutional means of redress. It is open, surely, to ministers or private individuals in West Bengal or Haryana or indeed in any part of our country to seek the verdict of the courts on the legal issues involved. Rao Birendra Singh in Chandigarh, for one, has announced his intention of doing so. It is to be hoped that he will carry it out.

Indeed, a reference to the highest court in the land is not only permissible but desirable. Such of us as are convinced that our national sovereignty is not divisible need not unduly be apprehensive of the result, for the Supreme Court is not ordinarily likely to take a view which makes it difficult for the central government to discharge its executive responsibilities for preserving the integrity of that sovereignty. In the unlikely event of the Supreme Court finding that the Constitution is vague or defective on this point, it would be a good thing if the position is thus clarified so that the central government may either have the Constitution suitably amended by the existing legislatures or, if this is not possible, go to

the electorate for a mandate on this specific issue. We have no doubt at all in our mind that the principle that the central government has and should exercise effective executive authority for the upholding of good government in all parts of the country should be placed beyond all partisan political challenges and established firmly in the public mind through all the necessary constitutional processes.

It is also necessary for certain allied issues to be rescued from the confusion in which they have been wrapped up. There is, for instance, the question of the precise nature of the responsibility of the governor. Once it is granted that the central government has the direct as well as the ultimate responsibility for good government in each and all parts of the country, it follows that the governor is primarily the instrument of the central government for the carrying out of that responsibility. We believe that politicians in our country have far too long evaded facing this truth. As a result, there has been a lot of hypocrisy and opportunism in the exploitation of the office of the governor as well as the governors themselves by all political parties, whether they are in power at the moment or on the opposition benches. It is high time that the air had been cleared and the governor's role publicly announced and acknowledged as that of a representative of the central government in the state capital for the primary purpose of facilitating or ensuring the due discharge of the central government's obligations for the maintenance of national unity and security and good government in all its essential aspects. This implies that the central government is entitled without qualification to appoint individuals of its choice as governors and guide and supervise them in their functioning. But it does not and need not imply that the governor is absolved of the obligation of functioning in the ordinary course with the trust and support of the state government concerned. Indeed, we may go farther and say that it is to be expected of the governor that he should exert himself to earn goodwill and co-operation in the state capital. But—and this is important—no state government is entitled to seek to reduce his role to that of a ceremonial functionary. In other words, the governor is essentially a civil servant and a part of the executive arm of the central government. We have no doubt in our mind that unless the government at the centre, present or any future one, has the brain and the political courage or brawn to uphold this principle, the outlook for firm and stable administration at national and state levels will be far from bright.

On the present occasion, particularly, there is no need for the central government to be apologetic about its action in West Bengal or Haryana and we are confident that Mr Y. B. Chavan may be relied upon to do full justice to the centre's cause, which, in this case, is also the country's. His task, however, is not an easy one, especially as tendentious propagandists seem determined to make it even more difficult than it need

be. Take, for instance, the editorial in *The Statesman* of November 22. This is not the first time that *The Statesman* has been indulging in the profitable pastime of running with the hare and hurting with the hounds. What is distinctive about its current performance is that it has taken the fun a stage further by also barking at the horses. Calling for a plague on everybody's house, *The Statesman* has found fault with the central government on the ground that the correct course, after the dismissal of the United Front ministry in West Bengal, would have been to promulgate President's rule pending a mid-term election and not invite, as had been done, Dr Ghosh, as the head of the newly formed Progressive Democratic Front, to form a ministry. This editorial prescription is not easy to reconcile with the stand which *The Statesman* had taken on an earlier occasion when it so eloquently condemned the resort to President's rule in Rajasthan without non-Congress groups being given a chance to demonstrate their capacity to form a stable government. It is being suggested by those who speak for or sympathise with the displaced political factions in West Bengal that the central government has murdered parliamentary democracy in that state, whereas actually an effort is being made to save parliamentary democracy in a situation in which those who are ideologically and politically opposed to it have been, on their own admission, pretending to work it in order that they may wreck it.

In view of the effort which is being made on so wide a front to confuse the issues in West Bengal, it may be useful here to emphasize two objective considerations. In the first place, if the United Front ministry came to grief, it was because its major partner, the left communist constituent, attempted to impose its will on it as if this group had received from the electorate a mandate to govern which it, in fact, had not. Mr Ajoy Mukherjee goes not because Dr P. C. Ghosh or Mr Humayun Kabir stabbed him in the back or the Congress party conspired to return to power, but because Mr Jyoti Basu had over-reached himself. Secondly, it was inherent in the way the vote for the state legislature was split at the last general election that only a coalition of parties could constitute a ministry. If the first effort in this direction fell through, it does not follow that a second similar effort should not be made—and it cannot be the case of any fair-minded observer that the coalition headed by Dr P. C. Ghosh is more opportunistic than the earlier one nominally led by Mr Ajoy Mukherjee. At the worst, Congressmen may have a better title than non-Congressmen to make use of ex-Congressmen.

Finally, even President's rule, which *The Statesman* so fervently wishes for West Bengal, has not been ruled out; only, many of us would surely pray that it does not become necessary. It is obvious that the Ghosh ministry will have to face the legislature at an early date and demonstrate that it commands sufficient support in it. If it fails, West Bengal will have the

same opportunity which has been given to Haryana of holding a mid-term election. The West Bengal Governor's action, therefore, is without prejudice to the legitimate rights and privileges of the electorate. As a matter of fact, had there been an immediate imposition of President's rule, it might have been exploited by the disruptionist political factions in the state to engineer disturbances and disorder and thereby defeat the very purpose of the centre in dismissing the Jyoti Basu dominated Ajoy Mukherjee ministry. We may concede, of course, that all danger has not been averted in West Bengal and that Kerala may be repeated there with the communist forces, having been expelled from government, consolidating and entrenching themselves in the political affections of some sections of the people. But

The £ Pounded

THE POUND sterling was devalued last weekend in circumstances reminiscent of those which had surrounded the devaluation of the rupee in June last year. On both occasions, the immediate compulsion was that much-needed external support for balance of payments could be had only in terms of a lowering of the parity of the national currency. Britain's Prime Minister is evidently more ready to admit this truth openly than the leaders of our government were in their turn. While New Delhi insisted on making a vain and pathetic attempt at presenting the devaluation of the rupee as a master-stroke of economic statesmanship guaranteed to set our agriculture, industry and trade booming, Mr Harold Wilson—whose reputation for intellectual integrity and political honesty is not of the highest—has nevertheless had the courage and decency to concede that the devaluation of the sterling is the result of the failure so far of his government to secure a reasonable rate of growth of the British economy. To this extent, the British government today is probably in a better position than our government was when the rupee was devalued to face the responsibilities of dealing with an economic crisis of grave proportions.

Even so, it is not going to be easy for Mr Wilson to revive the economy. For one thing, he has had to follow up devaluation by tightening further the screw of austerity, through a whole series of measures raising the Bank rate to the prohibitive level of eight per cent, cutting down public spending and imposing curbs on domestic consumption. In a way, this means only an intensification of the policy of deflation which the British government had been pursuing for some time in a bid to avoid the devaluation which it ultimately had to effect. It is therefore unlikely that either the British people or people elsewhere will be inclined to expect miracles from more of the same mixture, although the dosage has now been increased. At best, they could only hold on to the hope that this combination of devaluation and further deflation would make sense at least as a holding action. Having been made to recognise that it has been living beyond its means, the least that a country can do in its own interest is to attempt to make both ends meet.

this is a risk which cannot be eliminated merely by refinement of tactics on the part of the central government. In this troubled century and in our troubled country, the battle for political stability and peaceful economic progress is a continuing one and it is not a battle which could be waged or won exclusively by politicians, however able or well-intentioned. In the last resort, it is informed public opinion which is the guardian of the democratic rights of the people. In this specific case, it is up to informed public opinion in West Bengal to ensure that the Ghosh ministry is given at least as much of a chance to work the machinery of the representative government as the Mukherjee ministry had from everybody except his communist bedfellows.

The big question, however, is whether this attempt will succeed. In other words, will the price level in Britain, under the new dispensation, rise only in such a selective manner and, again, only to such a disciplined extent that while home consumption is discouraged for the benefit of export production, the general pattern of costs and incomes is not pushed up in an inflationary style? To answer this question hopefully would demand greater confidence in the possibilities of government-managed economies than many of us are capable of or the record of the Wilson government in these matters (or examples nearer home) can inspire. This leads us to the point that the basic issue posed by the devaluation of the pound, as by the devaluation of the rupee earlier, is whether the so-called mixed economies which have to reckon with a high degree of government regulation, direction or management, are at all in a position to compete competently with economies enjoying greater freedom from ideological controls or bureaucratic restrictions. It may be that the closure of the Suez Canal and other repercussions of the Arab-Israeli conflict had produced new stresses and strains which an ailing pound could not stand, or, perhaps, it could even be argued that Britain has had special problems in the post-war years coming in the way of its economic growth. Nevertheless, it is impossible to justify by reference to such considerations the obvious failure of the British economy over a period of years to keep in step with some of the west European economies or with Japan in industrial growth, technological progress, managerial competence or export performance. In the circumstances, he would indeed be a bold man who would assert that the over-management of the economy by the government, so characteristic of Britain in this period, has no significant responsibility for that country's present plight.

Earlier this month, commenting on the loss-making activities of state industries in Britain, *The Economist* pointed out that these nationalised industries, valued at £12,000 million and taking up eight per cent of the labour force, a scarce resource in Britain, were investing in the aggregate £1,700 million a year, half of this coming from the treasury and the whole of it being

equivalent to the entire investment of Britain's private manufacturing industries. Viewed in this context, the British government's take-over of the steel industry some time ago would seem grossly irresponsible while its post-devaluation decision to cut public spending at home, including capital spending on nationalised industries, by £100 million is woefully inadequate.

Even more disturbing is the question whether Mr Wilson and his colleagues will be able to brave the political repercussions of the devaluation-cum-deflation policy. The new economic squeeze ordered in the wake of the devaluation of the pound comes at a time when the trade unions have clearly shown that they are not prepared to go along with policies for freezing wage claims, while the electorate has equally clearly and defiantly been recording in by-elections its antagonism to government measures for the deployment of manpower through forcing retrenchment on certain industries. It is not going to be easy for the Wilson government, with its prestige shaken by the devaluation of the pound, to ride out the political storms ahead. In any case, whatever else may be claimed as a virtue for the policy of devaluation-cum-deflation which Mr Wilson has been forced to pursue, it cannot be said, surely, that an eight per cent Bank rate and all the rest of it is going to be a help to the British economy in recovering its expansionist impulses. If even a three per cent rate of growth seemed so hard to achieve up to the eve of devaluation, can it be expected that the British economy is now about to come alive and kicking?

The pound then is, in no sense, out of its troubles, even as the rupee has not been after or since its devaluation last year. For the time being, choosing to depend both on devaluation and further deflation, rather on devaluation alone, Mr Wilson has been able to limit the extent of the former to 14.3 per cent and has thereby spared other major currencies, particularly the dollar, the trouble of considering readjustment. But, should the pound stumble again—and it is not unlikely that it will—the world monetary system may not be able to remain unconcerned in the same manner as on

Slackness in Demand for Cement

FOR THE first time since 1958 the cement industry is experiencing a problem of marketing current production and there is no longer talk of an acute shortage of this essential building material. This situation has come about even with a net decline in the output of cement to 2.57 million tonnes in the third quarter of 1967 from 2.75 million tonnes in the corresponding period in 1966. The output figures relate to the members of the Cement Manufacturers' Association who account for over 98 per cent of the installed capacity of the industry in the whole country. Though it has been explained that the drop in demand is due to exceptional monsoon conditions in the past few months, there is a feeling in some quarters that it will not be possible to utilise fully newly created capacity in the absence of an increase in consumption on account of the government departments. Till recently,

this occasion. If the pound falls once more it is bound to take many other currencies down with it, including the US dollar. This means that the question whether the British economy is properly managed in the coming months is one of international concern.

As for our own country, the devaluation of the pound sterling affects directly, as the Finance Minister, Mr Morarji Desai, pointed out in Parliament this Monday, only about 10 per cent of our trade. The impact would have been heavier if Pakistan and Ceylon, which compete with our country in some export trades of consequence, had readjusted the parities of their respective currencies. Pakistan, however, has decided to stay put, while Ceylon, at the time of writing, is still examining the issue. All things considered, there is no need for our government to reconsider the present parity of the rupee if only because the devaluation of June last year had been so drastic. But there is certainly provocation in the devaluation of the pound—if provocation at all was needed—for our government to take a close, hard and long look at the trends in our balance of payments. The deficit is developing at a rate which brooks of no complacency. Except in the case of some of our engineering exports, our capacity to earn more foreign exchange through trade continues to be depressing, while it is becoming more and more obvious that we will just not be able to continue to import essential requirement on the scale on which we are now importing them or may need to import them in the future without our becoming more and more dependent on foreign aid which itself is becoming less and less dependable. It is possible that subordinate policy decisions or administrative measures, such as the revision of export duties, could take care of immediate needs. But, as is the case with the pound, the rupee too cannot be safe from further pounding, unless the right climate is created for sound and sensible economic expansion. It must be a sobering thought that, even at the height of its misfortunes, the pound sterling has commanded and is commanding a premium over the rupee in the free market. The pound sterling may be weak, but is not the rupee weaker still?

the central and state governments absorbed over 60 per cent of current production and it was estimated that there was a shortage of some two million tonnes and the needs of the civilian consumers could not be fully met. There will no doubt be an increase in despatches in the coming months from the factories with the prevalence of dry weather in Maharashtra, West Bengal and elsewhere in north India. But even if there is an increase in production to the level of April-June this year, when the output was 2.79 million tonnes against 2.57 million tonnes in the third quarter of 1967, there will be considerable under-utilisation of capacity. In April-June, 96.9 per cent of installed capacity was put to use; however, the very same quantum of cement can be manufactured with a much lower percentage of capacity in the coming months as the expansion schemes of many

established units will be completed shortly. Indeed, even now it is estimated that the installed capacity of industry is around 11.5 million tonnes and it will be 12.5 million tonnes by March next year.

With an increase in agricultural production and a revival in industrial activity, it may be possible for the cement producers to increase their despatches and utilise at least 90 per cent of the capacity. But it is feared that the profitability of working will be seriously affected as there has been a sharp increase in the manufacturing costs in the current year as a result of higher coal prices, costlier electricity and increased wages and freight charges. It had been hoped that utilisation of capacity to the maximum extent and an increase in selling prices at least to offset increases in production costs, which were beyond the control of the industry, would enable the producers to avoid a

The Cement Manufacturers' Association proposes to organise a seminar which will be held in New Delhi on November 28, 1967. It will discuss the operations of the cement industry. This article pinpoints some of the issues which are likely to crop up at this seminar, particularly the recent accumulation of stocks and the increase in cement prices demanded by the industry.

serious erosion of profit margins. The calculations in this regard have, however, seriously gone wrong. In spite of vigorous representations to the central government, there has so far been no increase in selling prices while increasing overhead charges have had to be spread over a reduced volume of production.

Cement companies in the southern region are extremely worried over the developments in recent months as almost all the units in Madras and Mysore are engaged in the implementation of ambitious expansion schemes. They had reckoned that it would not be difficult to market an increasing volume of production and with output exceeding even rated capacity, it would be possible to earn reasonable profits. It was also believed that the government would be agreeable to compensate the increased costs of coal and movement of cement by suitable adjustments in selling prices. Since the southern region has a surplus of cement and large despatches are sent to West Bengal and Maharashtra, any decline in demand has necessarily a greater impact in this part of the country. As it had been calculated that sizable sums would be available from internal sources for financing expansion schemes, the decline in demand has given rise to the fears in many quarters whether it would be advisable to proceed expeditiously with the expansion schemes or whether there should be a staggering of some new schemes. A decision on these questions is not easy as the return on fresh investments will be satisfactory only if the various schemes are implemented speedily. This is due to the fact that more than 50 per cent of the funds required for implementing the projects are being secured in the form of loans from the statutory financial corporations and through the issue of debentures to the public resulting in a

considerable increase in interest charges. The central government has to take note of the serious situation that has arisen in the cement industry and institute measures which will ensure the growth of capacity on the basis that has already been determined. There should be no hesitation to raise selling prices suitably and also stimulate the consumption of cement by granting liberal loans for house-building schemes and by expediting work on hydro-electric and irrigation projects. The fourth Plan targets may not be considered as having any serious significance in the altered circumstances but it will be wrong to think that there can be a pruning of targets and cement consumption will not grow on the anticipated scale. If the lessons of the 1958 depression are any guide, the demand for cement may increase surprisingly after 1968.

The southern zone has a very important role to play in fulfilling fourth Plan targets. It has been projected that there should be an increase in capacity for the whole industry to 25.69 million tonnes by 1970-71 from 12.14 million tonnes at the end of 1966. The southern zone will be accounting for as much as 8.57 million tonnes by the end of the fourth Plan and will be the largest producer in the whole country with the western zone coming next in importance with its share of 7.91 million tonnes. The northern zone will produce only 3.54 million tonnes and the eastern zone 5.66 million tonnes.

The states of Andhra Pradesh, Mysore and Madras have abundant reserves of limestone and there will be no difficulty in achieving the targets as the plans have been finalised by almost all companies. Out of the increase in installed capacity in this region by 4.44 million tonnes, Madras alone will account for 2.19 million tonnes. Mysore too will be making a significant contribution with an increase in the installed capacity of the units in the region by 1.55 million tonnes. In Andhra Pradesh there will be only a small increase as two new units, one each in the public and private sectors, are proposed to be established. The existing units do not have any fresh plans for increasing their capacity. In Kerala, Fertilisers and Chemicals Travancore Ltd has a scheme for manufacturing 100,000 tonnes of cement by using by-products. Even if the projects in the public sector in Andhra Pradesh and Kerala do not materialise, there is every likelihood of a near doubling of total capacity in 1970-71. Since heavy expenditure has already been incurred on the expansion schemes and arrangements have been completed for the delivery of plant and machinery on a defined basis, it has been urged in responsible quarters that the government should provide the necessary encouragement to those who have formulated definite schemes and are sure of fulfilling the allotted targets. If need be, there can be a modification of the scheme for the grant of expansion allowances. Since the rising costs have already nullified the beneficial effect of the increase in prices, following decontrol last year, it may be agreed that immediate help should be provided to those implementing expansion schemes pending a readjustment of selling prices.

Literacy and Economic Growth

THIS YEAR'S Madan Memorial Lecture by Dr C. D. Deshmukh on "The Role of Education in Development" deserves to be carefully read by our educationists and planners alike. According to Dr Deshmukh, "lack of articulation of the educational system with plans for economic and social development" has led to serious misdirection and waste of resources. This, however, is not peculiar to our country alone; it is the case with all developing countries in Asia, Africa and Latin America, generally, which is what has prompted international agencies such as the UNDP to stress the point—obvious but often overlooked—that education is the most important pre-investment activity in all developing countries and to promote what are called projects of "functional literacy" in these countries.

Dr Deshmukh chose the example of banking to drive home the meaning of "functional literacy", or literacy sufficient for one to use printed guidance in the pursuit of one's vocation. He squarely charged bankers for having failed to interest themselves more vigorously in the process of economic growth in the rural areas. "That the monetary economy of the country has largely remained confined to urban areas and that banking has up till now only a tenuous and highly tentative connection with the affairs of the rural folks", he said, "is evidence of the narrow view which bankers of India have taken of their professional and social responsibilities towards the economic and social development of the countryside." And although he went on to say it would perhaps be profitless to speculate on what might have happened had our bankers interested themselves more actively in this process, he did speculate to make this significant observation: "Conceivably the whole picture of economic development would have been brighter than it is today, particularly in regard to agricultural production. At any rate, government would have had less justification for insisting on exercising social control over banking."

After quoting extensively from all the three five-year Plan documents and from even the draft outline of the fourth Plan, Dr Deshmukh has come to the conclusion that, even after the lacuna is realised and the type of reorientation required to meet the situation is recognised, allocations present considerable difficulty, what with the extensive field of priorities that the planners and the educationists have themselves outlined. So, if education in our country is to be on the lines desired and the future educational planners and administrators who have to give it a shape are to be properly trained it is not enough to have merely the lead and guidance—extremely valuable though these undoubtedly are—of UNESCO's International Institute for Educational Planning, but also adequate resources, at least enough to supplement what this country can afford to allot from all the sources put together, for the purpose. This is a point to which also Dr Deshmukh must have given

some thought, though he did not dwell on it, and he must have had his own reasons for that.

Although Dr Deshmukh felt it was not necessary to expatiate on the significance of literacy as a prerequisite of democracy, what he said on this subject takes one back to what Dr Rajendra Prasad said on universal adult franchise in his concluding address to the Constituent Assembly. He then sounded a clear note of warning that the country was embarking upon a far-reaching experiment fraught with great risks. The warning has not been unwarranted and events since have disproved the thesis of those who believed—and some still continue to cherish the delusion!—that "the Indian franchise holder is shrewd and judicious and can be relied upon, despite his illiteracy, to return to the legislatures representatives of the right calibre and ethos." It is not clear, however, where one has to place the blame for some of the misconceived decisions by the governments over the past few years—whether at the door of the illiterate voter or at that of the ultra-literate legislator. Be that as it may, it is axiomatic, as Dr Deshmukh rightly observed, that "a sound and healthy democracy cannot be sustained for long by a largely illiterate electorate." Hence the relevance of his plea that, unless the achievement of literacy for all is pursued as one of the urgent goals of national policy, democracy in our country will prove to be short-lived.

We cannot too strongly underscore what Dr Deshmukh said about the need for adult or continuing education, a need that seems to be particularly called for among our politicians in power. How often are we not confronted with the ludicrous spectacle of one minister or another in charge of a given portfolio arrogating to himself omniscience on all subjects falling within his portfolio even when the whole world knows only too well he has had no occasion to come within a mile's distance of any such subjects earlier in his life? It is these, more than anyone else, that need to realise what Dr Deshmukh termed as "perils of obsolescence". If this phenomenon of obsolescence is not to overwhelm not only our politicians but all of us, as it is threatening to, what is needed most urgently is, again to quote the learned speaker, "(i) reform in teaching and learning that will create and nourish a capacity to learn the new things that swim into our ken so fast and (ii) continuing education for everybody, no matter what his status is in life." In other words, all citizens have to learn to be students all their lives and, not only that, they have to keep in touch with new developments, have to be re-trained and have to make arrangements for the retraining of those under their charge. This is a splendid attitude to develop, but it means acceptance of a degree of discipline not only in the much lamented ranks of students but also among those so-called responsible elders that are supposed to be governing the country.

The Fourth Five-Year Plan

K. SANTHANAM

I AM glad that the Planning Commission has taken its first step in the right direction. The decision to postpone the formulation of the fourth Plan to 1969 and allow it to run to 1974 is wise. Besides meeting the immediate economic difficulties of formulating a five-year plan while there are no signs of the end of the recession, it would have been unreal to estimate possible resources or to formulate any real plan. It may be that even by 1969 the difficulties would not disappear but it can be reasonably expected that they would not be so formidable.

An important result of this decision is to make it begin in the midst of a normal period of Parliament and the state legislatures between two general elections. Hitherto, the Plan began in the financial year in which the general elections were held and plan formulation had to take place on the eve of such elections. It created an artificial interest in going to the voters with a bigger plan than was warranted by the prospect of resources. Because the plan had to be big, the available resources had to be exaggerated. Another difficulty was that the states could not implement their taxation programmes in the first year and often had to make promises of decreasing existing taxation. The delinking of the plan from the general elections will create more realistic conditions for its formulation.

But a first step can be useful only if it is followed by other necessary steps. It is still far from certain that the new Vice-chairman of the Planning Commission or his colleagues have got rid of the absurd notion that their business is not only to plan but also to implement and direct the central and state governments, particularly the latter. Otherwise, there is no reason why the Planning Commission should bother about the so-called annual plan for 1968-69. Beyond completing the unfinished projects and consolidating those that have been established, there is hardly any scope for new public sector projects. It is obviously impossible to have any annual plan for the private sector. In the field of social services, big commitments cannot be made for the future. Therefore, the right thing will be to let the central and state governments manage as best as they can and make the most of whatever has been done during the three plans before they are called upon to make further concentrated efforts after the fourth Plan is formulated.

Radical Departures

The Planning Commission will also have to make radical departures from the methods of its predecessors. Instead of tinkering with the minor changes which the central and state governments may wish to take up for the current year and the next, the Planning Commission should use this interval for an intensive introspection of its methods, cut down its establishment to the minimum necessary size and decide to reorganise the relative roles of the state and central governments in the fourth Plan. It is hoped that the Planning Commission will earnestly consider the following suggestions which are offered in a friendly and constructive spirit.

The most important thing to be considered is whether the fundamental idea that planning should comprise the entire field of development activity is correct or necessary. For a totalitarian state, this is a natural and necessary assumption because it is possible for such a state to stop development in particular directions while concentrating on others. In a democracy, it is not possible to ignore any aspect of economy which affects large numbers of people.

In an all-comprehensive plan, the demand for increased investment will be made by all sections of society and it will not be possible politically for the state or the central government

to say to any group of people that they will have to await their turn. For instance, in Russian planning, housing was deliberately postponed and in many of the big industrial undertakings, the workers had to live in huts or tents till the undertaking had begun to function and produce surpluses. On the other hand, in our country all public undertakings have started with big housing colonies from the very beginning. Logically, this is certainly a desirable procedure if we had unlimited resources but where resources are scarce, they have to be used in the most productive manner.

I would therefore suggest that planning should be confined to certain special sectors so far as the centre is concerned and similarly selected sectors for each state. For instance, there is no need to have a plan for elementary education in Kerala, Madras or Mysore where there are schools to accommodate all children aged six to 11 years. There is of course much to be done to improve the quality of teachers and their living conditions, better school buildings, provision of mid-day meals etc. But these should be left to the processes of normal administration and should not belong to the plan. On the other hand, the development of junior technical schools, polytechnics and higher technical educational institutions still require considerable expansion in these states. In Uttar Pradesh, Bihar, Rajasthan and Madhya Pradesh all other educational development will have to be subordinated to the achievement of universal primary education.

Differing Priorities

Similarly, rural drinking water supply is not of the same importance to all the states. In Rajasthan it may have to be given top priority while in other states, it may safely be left to the normal functioning of panchayat raj institutions.

Thus the spheres which require special expansion will have to be carefully marked out and the plan should concentrate only on these, leaving other developments to the ordinary activities of the central and state governments which will no doubt be under pressure from Parliament and the state legislatures to develop them.

This method of limited and concentrated planning will involve changes in the method of financing the plans. Hitherto, the attempt has been made to estimate the total financial resources, deduct the normal expenditure including the committed expenditure from the previous plans and distribute the surplus among the various fields of development. In actual practice, the estimates of resources have seldom been realised, physical achievements have fallen far short of financial expenditure and the performances of states have been very unequal. If the field of planning is limited, the calculation of resources needed can also be more precise. These resources should be mobilised both at the centre and in the states into separate plan funds. These will consist of some part of the revenue surpluses plus the major part of foreign aid and loans taken by the centre and the states. Some amount of revenue surpluses as well as a comparatively small portion of the loans will have to be left at the disposal of the governments for the normal development of unplanned subjects as is now the case with police and general administration.

Another false idea which has developed during the three plans is that every line of development requires larger and larger capital during each plan. For instance, hundreds of crores have been given for the development of khadi, handloom, small-scale and cottage industries. If the amounts given as loans are at all recoverable, it should be possible to convert them into revolving funds for their further development. To

make further loans for these purposes dependent upon the recovery of old loans will enforce a salutary discipline on the agencies which are responsible for these industries. This idea of a revolving fund has been informally practised by the Hindustan Machine Tools which has built up new units from savings. When the Bokaro steel plant comes into existence, the capital invested in the four big steel undertakings should be enough to provide the surplus for further expansion in steel production.

I would suggest the extension of this idea to the financial relations between the centre and the states. The present practice of the states repaying the interest payable and the instalments of capital due on the old central loans from the new central loans is not only farcical but breeds financial irresponsibility on the part of the states. If the total of the present central loan of each state is converted into a revolving fund for that state and the interest and instalment repayments are paid into a plan fund, it will provide a basis for future state plans on an autonomous and responsible basis. Also the Finance Commission should indicate in the case of each state what

percentage of the additional proceeds resulting from its recommendations should go into the plan fund. For the rest, each state should make up by further taxation and public loans while loans for production enterprises should be made available from a special development bank. The termination of the role of the centre as the permanent and unlimited creditor of the state governments will have salutary and beneficial effects on union-state relations in the present context.

It is not my desire to present a blue print to the Planning Commission. The suggestions I have made are intended to achieve three objectives:

- (i) to concentrate on those lines which require immediate attention and cannot be postponed;
- (ii) to equate more realistically objectives and achievements; and
- (iii) to restore to the centre and the states their respective financial and administrative autonomy with an effective organisation, and procedure for co-operation and co-ordination.

Statistics and Planning of Agricultural Programmes

L. L. SARIN

ONE OF the prerequisites of planning is the well-developed system of statistics. In India, this system requires remodelling and expansion with a view to providing the planning authorities with reliable statistics. The basic task of statistical services should be to provide the information necessary for the evaluation of the degree of fulfilment of the plans; for the analysis of the trends of the economy as a whole, by sectors and regions; and for the assessment of the size and the rate of growth of resources and reserves available for further development. In developing countries particularly, attention needs to be given to the organisation of statistical services since these countries do not have all the statistical information which is essential for planning. In fact, the collection of statistical information also becomes a part of the planning exercise.

Agriculture in our country is one of the most important branches of material production and continues to be the mainstay of life for about three-fourths of the population. The collection of accurate and reliable agricultural statistics, their analysis and interpretation on scientific lines are essential for the formulation of correct agricultural policies and for planning agricultural production programmes. Our agricultural statistics suffer from many defects. The need for a co-ordinated programme for their improvement has been keenly felt for a long time. The defects in agricultural statistics and the measures to remedy them were highlighted in 1949 by the Technical Committee on Co-ordination of Agricultural Statistics. As a result of various measures adopted during the first three Plan periods, some improvements have been effected, but much progress could not be made mainly due to paucity of funds.

Arbitrary Approach

The approach to agricultural planning in our country in the past consisted mainly in setting out the targets of production for different crops and other agricultural commodities at the national and state levels, after taking into account the resources available in different areas and the incentives made available under the Plan. Many states have endeavoured to assess the capabilities and needs of various districts in formulating their plans, but the allocation of state targets to the development regions within the state involved certain amount of arbitrariness in the absence of detailed data on available and potential resources for agricultural production for individual development blocks and the farm units in these blocks.

For proper planning, it is necessary to concretise the state level plan into a set of specific programmes through detailed

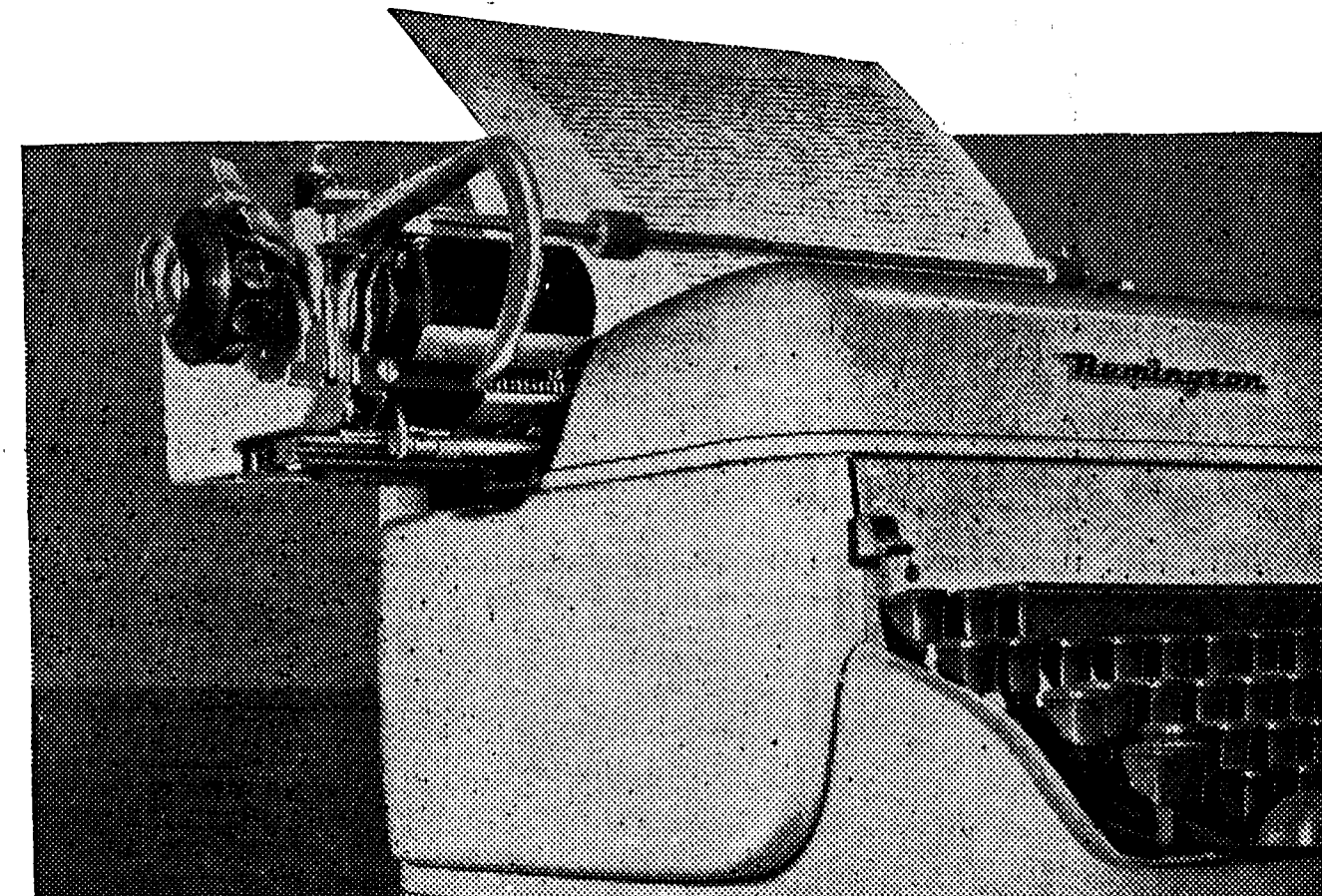
work in the field at the district and block levels. Realistic and integrated planning at these levels is possible only if the production goals as well as the physical programmes and financial ceilings are indicated district by district and guidelines are given to district and block level authorities to formulate detailed programmes at their respective levels. But, in order to plan utilisation of resources available in the various planning units for the optimum advantage, we have to have, on the one hand, information detailed enough to build up realistic targets for the various development blocks and, on the other, equally detailed information on the number of farms within each block classified by type and the planning techniques appropriate for each. Only then would the extension staff be in a position to advise the farmers effectively in the fulfilment of targets. Since the targets for individual planning units need to be geared up to the actual conditions and resources of the farmers, it is imperative to conduct a comprehensive census of the farms, preferably in line with the FAO World Census of Agriculture.

Responsibility at Block Level

A block having been accepted as the unit for all development activities, emphasis has now been rightly laid on obtaining statistics at block level. All schemes for improvement in agricultural production will require data at this level. In particular, the need for obtaining estimates of agricultural production at the block level should now be considered urgent. The real test by which the efficacy of any agricultural production programme should be judged is the actual increase in production. More and more reliance is being placed on the block and village production plans as the instrument for the implementation of development programme. Block level estimates of production are necessary not only to judge the actual performance of the various programmes of production and to pinpoint responsibility for failures on each block, but also to identify relatively weaker areas, which need greater concentration of effort. The preparation of block level estimates of production for selected staple crops is also likely to create a healthy rivalry between different blocks in the district. It is imperative, therefore, that the scheme is introduced in all the blocks on a priority basis.

At present firm estimates of area and production become available long after the crops are sown and harvested. Estimates for kharif crops become due only in March and for rabi crops some time in May, although in actual practice they become available much later. For food policy and administration, reliable estimates are needed much in advance. Further,

How to judge the new REMINGTON without using it :



Just try buying an old Remington. You'll find its price rather close to that of the new Remington! That's because owners are reluctant to part with a typewriter that's such good, lasting value.

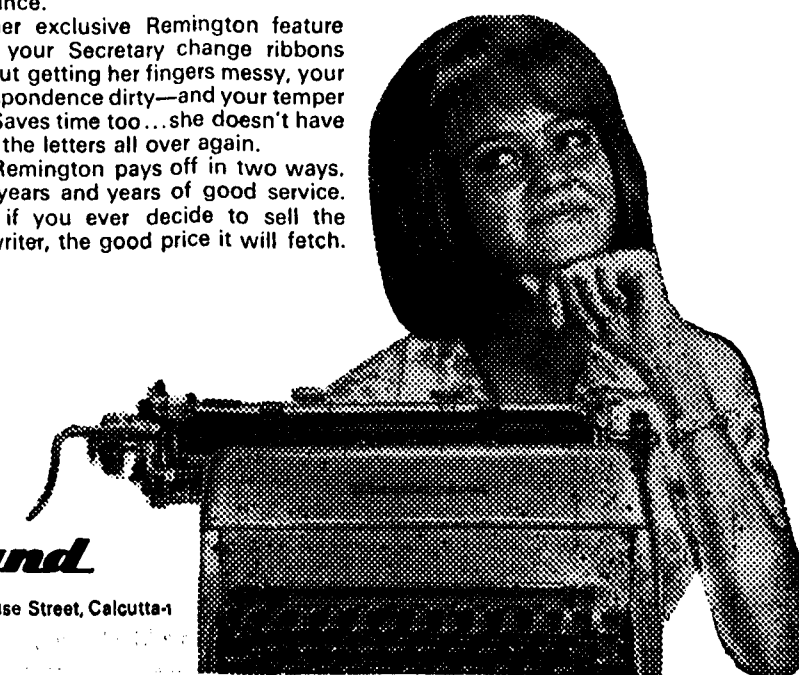
You'll feel even more strongly about your new Remington. Because the new Remington is an improved Remington. The keys have a much lighter touch. The carriage movement is even easier and smoother.

And by an exclusive Remington testing

device the alignment of each type is checked. Plus, all internal components are carefully metal-finished for rust resistance.

Another exclusive Remington feature helps your Secretary change ribbons without getting her fingers messy, your correspondence dirty—and your temper up! Saves time too... she doesn't have to do the letters all over again. Yes, Remington pays off in two ways. One, years and years of good service. Two, if you ever decide to sell the typewriter, the good price it will fetch.

ALSO AVAILABLE IN 11 INDIAN LANGUAGES.



Remington Rand

REMINGTON RAND OF INDIA LIMITED • 3 Council House Street, Calcutta-1

©ENSONS2/RAL-18 A

Our cheque book is your introduction to world-wide banking!

Over 50 branches in India and branches, associated banks and companies abroad are there to give you efficient banking service.

Associated Banks and Companies

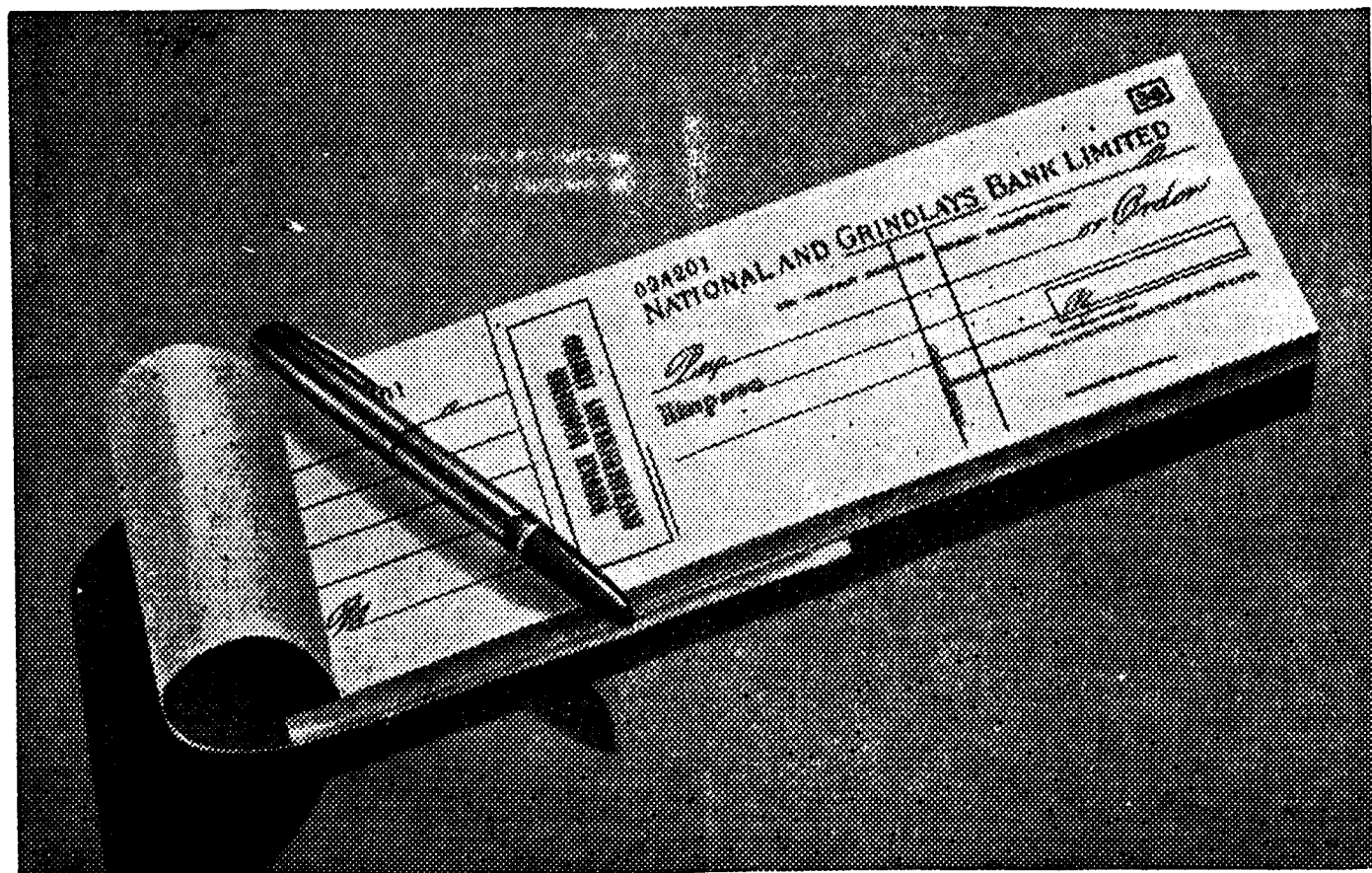
WM. BRANDT'S SONS & CO. LIMITED • NATIONAL AND GRINDLAYS FINANCE AND DEVELOPMENT CORPORATION LIMITED • EXPORTERS' REFINANCE CORPORATION LIMITED • ADDIS ABABA BANK S.C. • ADDIS ABABA, ETHIOPIA

Bankers Associated

LLOYDS BANK LIMITED : NATIONAL PROVINCIAL BANK LIMITED

Issued Capital and Reserves exceed £12½ millions

Branches in
Aden, Ceylon, Kenya, Pakistan,
Rhodesia, Somalia,
Uganda and Zambia.



NATIONAL AND GRINDLAYS BANK LIMITED

Incorporated in the United Kingdom • The Liability of Members is Limited.

with the change in the cropping pattern during recent years due dates of forecasts need to be revised. The second problem is to remove certain drawbacks even in the existing system by reorganising the collection of agricultural statistics. At present, while there is some central supervision over the field work of crop cutting experiments, there is no check by central staff over the area enumeration work done by the primary reporting agency. Even the quantum of supervision done by the central staff on the field work of crop-cutting experiments is not adequate and needs to be increased. The third problem is to have advance and reliable estimates of area and production of principal crops while the crops are still in the field for the preparation of the national food budget. An index of weather conditions taking into account rainfall, temperature, etc., could be developed to forecast the yields of crops.

With the introduction of multiple cropping and short duration high-yielding varieties programme, opportunities have been created for cultivation of two or more crops, particularly in areas having good intensity of irrigation. With a view to having a realistic appraisal of the progress of coverage under these programmes, it is necessary to have reliable estimates of area and production of the crops sown in all the seasons.

In areas in which statistics of land use and crop areas are based on complete enumeration, the large increase in the workload on the primary reporting agencies at the village-level and on their supervisory officers has adversely affected the collection of proper agricultural statistics. The strengthening of the primary and supervisory land records agencies is the crux of the whole problem of introducing lasting improvements in agricultural statistics, besides implementing effectively the various land reform, development and welfare measures.

As regards non-reporting areas, the bulk of which is covered with dense forests and hills and is sparsely cultivated, cadastral surveys and complete area enumeration might be both difficult and prohibitive from the cost point of view. For such areas suitable sampling techniques may have to be adopted to frame the estimates.

The Main Gaps

The main gaps in the coverage of crop cutting surveys on food and non-food crops are in respect of millets, pulses, tobacco and oilseeds. The quality of field work is not satisfactory in all the states and in some states a sizable proportion of the experiments planned is not conducted. The scale of supervision exercised is also inadequate, though there has been some improvement in recent years. It is important to have increased supervision at harvest stage to tune up the field work and to obtain separate yield estimates at least at the national level.

Reliable area statistics for individual fruit and vegetable crops are not at present available in many states, and the position regarding yield statistics is still worse. It is very essential to have comprehensive and reliable statistics of area and yield of different types of fruits and vegetables for proper planning and execution of programmes for increasing their production and for assessing the progress of various development schemes.

There are at present different sets of figures collected by different agencies in respect of area and production of certain crops such as cotton, tobacco, tea, coffee and rubber. The discrepancy between different sets of figures is often wide. It is important that these differences are reconciled or narrowed down. Type studies could be taken up in one or two selected areas, where differences are wide, to diagnose the causes for differences and suggest measures to reconcile them.

In the agricultural sector, the production targets are essentially based on and related to the developmental measures proposed to be undertaken. The acreage likely to be covered by them and the additional production expected from each unit are worked out on the basis of average response or 'yardsticks' expected therefrom. The adequacy of the yardsticks approach

for the formulation of crop production targets and assessment of results under the Plans have been carefully considered by a working group headed by Dr S. R. Sen. The working group has made valuable suggestions which include inter alia (i) evolution of yardsticks of agricultural production for region/district or lower levels; (ii) intensification of field trials on improved agricultural practices; (iii) conducting of extensive investigations to study composite yardsticks and (iv) evolution of yardsticks for homogeneous regions within the state. It is necessary that the states should undertake special studies to examine how far the production potential created is reflected in the increases in actual production.

Basic Requirement

For realistic planning and implementation and obtaining effective, concrete results, proper assessment of the physical benefits accruing from different schemes under various programmes is a basic essential requirement.

Irrigation : The statistics of irrigated areas by sources and crops, as contained in "Land Utilisation Statistics", flow as a by-product of the land records prepared primarily for land revenue purposes. The other source is the progress reports that are periodically furnished by the state governments on the schemes taken up under the five-year Plans. There exist wide discrepancies between the two sets of statistics as regards the additional irrigation benefits accruing during the Plan periods. Various causes are responsible for these discrepancies. There is possibility in general, of under-estimation in "Land Utilisation Statistics" and over-estimation in the areas furnished in the progress reports. There is need to reconcile such discrepancies, by carrying out random sample surveys for assessing the actual benefits through these schemes. It is necessary to focus shortcomings, limitations and ambiguities inherent in the procedures adopted at present in reporting these statistics. This can be largely overcome if a standard classification is adopted for reporting irrigated areas. For example, benefits accruing from minor irrigation schemes could be divided into (a) new irrigated areas, (b) old irrigated areas over which irrigation is stabilised, (c) benefits in the form of water conservation, submergence of land or recharge of ground water and (d) benefits by way of drainage, flood control, etc.

Fertiliser : Considerable difficulty is felt in building up a consistent and accurate picture of the extent of the fertiliser consumption by categories and the stock position of fertilisers at different levels of the distribution channel. While attempts are being made by the state governments to obtain data on various aspects of fertiliser distribution on a systematic basis, the gaps in the available data are still considerable and their reliability has considerable room for improvement. The existing arrangements are inadequate even at the level of the central government. Whatever data are currently available about the levels of consumption of fertilisers in the country are processed mostly by the Fertiliser Association of India. Since fertiliser is the pivot of the agricultural production programme and larger quantities of fertilisers are programmed for production and consumption in the fourth and subsequent five-year Plans, it is necessary that the system of reporting data on distribution, consumption and stocks of fertilisers should be streamlined and improved both in coverage and quality as early as possible. In the absence of a regular flow of data bearing on all these aspects, it would be very difficult for the agencies concerned in the fertiliser programme viz., the state governments, the co-operative agencies, and the central government, to effectively plan and implement the programme according to its objectives. Immediate attention, therefore, needs to be given to gearing up the machinery for the reporting and analysis of fertiliser statistics.

Improved Seeds : The major difficulty in the assessment of the programme for improved seeds arises from the inadequacy and unreliability of the data. The statistics of the areas under improved seeds of the foodgrains crops are scanty and what-

ever are available, contain a large element of error and possible guess work.

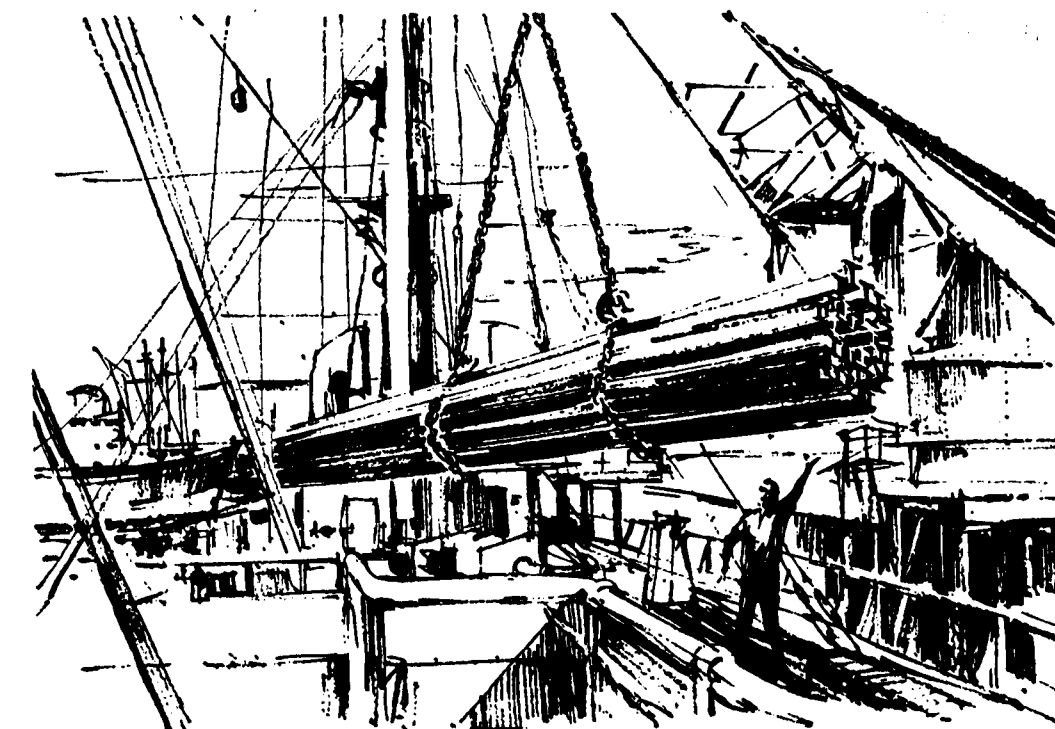
A development of major significance in the field of agriculture in India is the introduction of "High Yielding Varieties Programme" and it is planned to saturate in selected tracts a total area of about 32.5 million acres with these varieties of foodgrains during the fourth Plan period. Regular scientific assessment of this programme is essential for removing the bottlenecks and reorienting the programme, if necessary, to enable achievements of the goals. Such an assessment is, however, handicapped for want of adequate and reliable data on the spread of improved seeds including high-yielding varieties and additional production obtained from them. The states generally furnish lumped figures for areas under improved varieties of foodgrain crops. The position could be improved by making a provision for recording the names of high-yielding varieties of foodgrains and marking their areas in the basic and abstract village forms viz., 'khasra' and 'Jinswar' (crop abstract) and by making necessary provision for the collection of the data on improved varieties, including high-yielding varieties of crops, in the schedule of (a) normal crop-cutting surveys; (b) IADP assessment and evaluation surveys and (c) surveys for estimating production of principal crops at the block level.

Certain improvements in agricultural statistics are overdue and unless immediate measures are taken to effect them, much improvement in planning techniques cannot be achieved. The first and foremost amongst these is the accurate and timely maintenance of land records which are the source of all area statistics and other data needed for formulation and execution of land reform and other development measures in the country. An important task is the extension of crop cutting surveys to the crops and areas not covered so far. Arrangements have also to be made for providing the administrators, policy makers,

planners and extension workers with various operational statistics needed for agricultural development, the lack of many of which is a severe handicap in present planning. Besides organisation of collection of various data, it is also necessary to make arrangements for expeditious analysis of the data collected. Among the agricultural statistics which should receive attention in the long-range perspective are: completion of cadastral surveys and institution of reporting system in those tracts where the terrain is difficult and cultivation is sparse, organisation of surveys for estimation of production of minor crops and minor by-products, collection of a number of derived statistics in the field of agriculture. Advance action in this regard is called for.

Meteorological Data

For planning of cropping patterns, forecasting of plant diseases and pests, agricultural research and implementation of crop production programmes, it is necessary to collect data on certain meteorological elements such as (i) rainfall including hailstorm; (ii) temperature; (iii) humidity and (iv) hours of sunshine. The present system of collection of this data is primitive and rudimentary and this requires drastic improvement. It is also important to utilize usefully the data so far collected. For example, although we have been collecting climatic data for the better part of the century, it was not until the late 'fifties that the vanaspati industry accidentally discovered the most valuable data of the effect of the spread of rainfall on groundnuts in an isolated agricultural research institute. This data should have been available years earlier, and disseminated far and wide. As is well known, it is inadequate to know the rainfall aggregates, when the critical factor is the spread of a few inches at the right time of the year to make all the difference between a hundred per cent crop or a sixty per cent crop. For instance, during the year 1966-67, we



Tata Steel goes abroad

Several times a year, ships carrying, among other things, angles and channels, bars and joists, and other steel products made in Jamshedpur, sail away from the Calcutta port...bound for East Africa, the Middle East, the Far East and Australia. These steel products are of utmost importance to the importing countries for their economic development.

Exports by Tata Steel, which are channelled through Commercial and Industrial Exports Limited (CIEL), the Government-recognised export house of the Tata

Group, spurred to over 43,000 tonnes valued at Rs. 2.25 crores during 1966-67, from about 26,500 tonnes valued at Rs. 95 lakhs in the previous year. The increasing exports indicate Tata Steel's concern to do its bit to augment the country's foreign exchange earnings, so vital to the success of our national goal of planned industrialization.

TATA STEEL

The Tata Iron and Steel Company Limited

TN 4018A

THE UNITED COMMERCIAL BANK LIMITED

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

AUTHORISED CAPITAL	.. ..	Rs. 8,00,00,000
SUBSCRIBED CAPITAL	.. ..	Rs. 5,60,00,000
PAID-UP CAPITAL	.. ..	Rs. 2,80,00,000
RESERVE FUND AND OTHER RESERVES (31-12-1966)	.. ..	Rs. 4,00,00,000

DIRECTORS

I. P. GOENKA
Chairman

M. P. BIRLA
Vice-Chairman
ANANTA CHURN LAW
G. D. KOTHARI
RANG NATH BANGUR
MOHANLAL NOPANY
YOGINDRA N. MAFATLAL

MADANMOHAN R. RUIA
Vice-Chairman
MOTILAL TAPURIAH
T. S. RAJAM
SHRENIK KASTURBHAI
S. T. SADASIVAN
DR. R. R. HATTIANGADI

BRANCHES

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

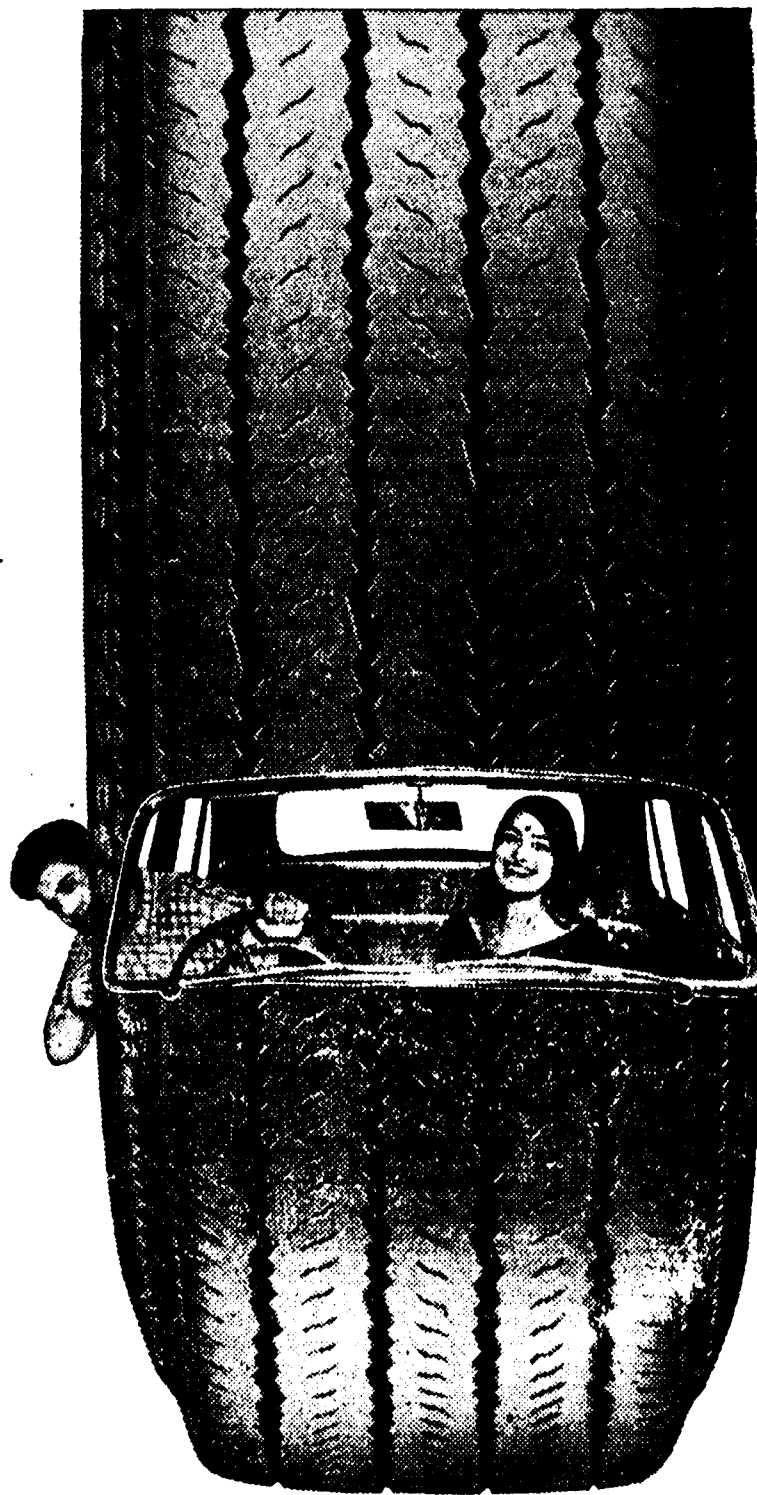
BUSINESS AND SERVICE

Current Accounts opened. Fixed Deposits received for long or short periods. Savings Bank Accounts. Recurring Deposits for accumulated capital in convenient monthly instalments. Foreign Currency and Rupee Travellers' Cheques sold and encashed. Other types of domestic and foreign exchange business.

R. B. SHAH
GENERAL MANAGER

NEW
DUNLOP
GOLD SEAL
C49
CAR TYRE

Gives you
10% MORE
MILEAGE



and a new high in safety with Dunlop Hi-Mu rubber

Great news for motorists! The new Dunlop Gold Seal C49 offers you 10% more mileage! The reasons? Improved tread design results in a slower rate of wear, and the improved tread rubber gives longer life. It has already been road-tested over millions of kilometres all over the world under all kinds

of conditions. Even more—Dunlop Hi-Mu, the new road-hug rubber compound in the tread, gives this tyre outstanding grip especially on wet roads. The new 'Safety Shoulder' greatly increases steering control when you need it most—on bad roads and at sharp bends.

DUNLOP GOLD SEAL C49 - MILES AHEAD

were expecting, till September, a bumper crop of foodgrains but then the September-October rainfall failure made all the difference. Secondly, frost, as every one knows, can be a killer of some crops, and yet for many areas there has been inadequate information on the incidence of frost in the past two decades or so.

Along with planning, the evaluation of various programmes is an essential aid to the efforts made by the authorities engaged in planning for improving the formulation and implementation of these programmes. Broadly speaking, the objectives of programme evaluation include assessment of progress and, in fact, finding out areas of success and failure in implementation, analysing the reasons for success and failure, ascertaining people's acceptance of the programme benefits and their reactions, and deriving lessons for improvement in the formulation and implementation of programmes. The working group, under the chairmanship of Dr V. K. R. V. Rao, which studied the programme in detail has come to the conclusion that there

is scope for two types of evaluation in the states, one of which is oriented to the current operational programmes and arrangements, which should be integrated with the implementing agencies concerned in the various developmental sectors. The second type of evaluation requires that the evaluation agency should be independent of the machinery charged with the responsibilities for administering programmes. At present, the arrangements for progress analysis and implementation review display a wide diversity among the states. There is room for qualitative improvement in progress reporting and analysis in a number of plan sectors. In a number of states, there is scope for the systematisation and streamlining of the existing arrangements for reporting, e.g., co-ordinating the progress reporting system in the districts and the routing and analysis of such data at higher levels. Steps should be taken so that it is possible to bring out an annual evaluation review of the whole plan which could be placed before the nation as one of the basic annual documents.

Model Contracts for International Trade

MANUBHAI SHAH

IN RECENT years we have adopted various instruments for the growth and development of foreign trade. In an increasingly competitive and complex field as international trade, no concrete progress could be made without well-defined goals and scientific and institutional organisations. We have already defined our national objective of expanding our export earnings. We have also been able to locate the areas of development potential and identify their special problems and chalk out plans of action.

A number of agencies have been established in the last decade to promote and develop our export trade. There are at present 19 export promotion councils and nine commodity boards engaged in the promotion and development of exports of as many commodities. Even though the number of councils and boards for export promotion looks big, this is the smallest number of such bodies in any country of the world. We have deliberately chosen to establish only a small number of such organisations. Export is a task involving numerous exporters, manufacturers and producers. In many countries even individual municipalities, local boards and state governments have established hundreds of local export councils and export panels for different commodities and regions. In the USA, UK and west European countries, the number of such councils and boards for export run into hundreds.

Specialised Bodies

We have also set up a number of specialised bodies and service agencies engaged in their respective areas of expertise and skills, such as the Indian Institute of Foreign Trade, the Federation of Indian Export Organisations, the Export Inspection Council of India, the Indian Institute of Packaging and the Indian Council of Commercial Arbitration. There are also high-level policy-making bodies under the aegis of the Ministry of Commerce, such as the Board of Trade and the Export-Import Advisory Council to maintain a continuous rapport and dialogue between government and representatives of trade, industry, banks and economists.

In such a comprehensive scheme no approach to development could remain unattended. For expanding and sustaining the volume and pace of our foreign trade, it is imperative that the flow of commerce is swift and smooth. Disputes in foreign trade, though inevitable, should be minimised and controlled effectively and resolved in the shortest possible time so as to avoid damage to goodwill. Amity between traders, which is

the foundation of long-term trade relationships, is fostered by quick and smooth settling of disputes. The Indian Council of Commercial Arbitration has this vital function to discharge.

A very important factor which can help to reduce disputes is the streamlining of the export or import contracts concluded by our traders by drawing up 'model contracts' for principal commodities and principal regions of the world with which we trade. Such model contracts should be well drawn-up without any scope for ambiguity which is the cause for many disputes. The arbitration council is already engaged in this task of popularising contract forms among our export trade. Diverse lines of trade will each have individual problems depending on the peculiarities of the merchandise. Modifications may also be necessary for other reasons such as the legal systems and commercial practices of various countries.

Best Guarantee

A suitable and adaptable model contract form, with an arbitration clause, will be the best guarantee for a trader to protect his interests. Very soon the arbitration council is convening a conference of export promotion councils and other representative bodies for the purpose of adopting such contract forms for the different branches of trade. As our trade is becoming more diversified and its flow is being directed towards more countries, it may be necessary to adjust the forms of contract to suit new situations. The arbitration council's experience and expertise can always be drawn upon by the exporters. It will be one of the most important contributions of the arbitration council if it is able to bring about in the next few years the adoption of standard contract forms, particularly for the principal products and the principal regions with which we have sizable trade.

There is much more in the promotion of arbitration than merely popularising it among the traders. No worthwhile progress can be made without constant review of the problems of our exporters both individually and collectively. There is scope for field surveys to study the nature of the difficulties encountered by our traders in concluding contracts with foreign parties, in the matter of determining the venue of arbitration, in the prosecution of arbitration in other countries, and in the enforcement of foreign arbitral awards. Further programmes of action or more detailed policies can be initiated on the basis of facts collected. Legislative as well as administrative measures can be suggested for governmental action on the basis of the evidence collected. A code of trade practices for major

commodities and principal regions of the world could be evolved and reviewed from time to time.

Arbitration is an important factor in international trade. The Indian Council of Commercial Arbitration is already providing facilities for amicable settlement of disputes and propagate arbitration as a mode of settlement of disputes. In furtherance of these goals, there are many areas in which the council can function effectively and usefully. In this field, the most important and challenging task is to educate our traders in the intricacies of international trade transactions. The task is challenging for two reasons: the number of traders engaged in our foreign trade is perhaps one of the largest anywhere in the world. To reach each one of them and to impart to him the knowledge, techniques and skills of trade transactions is indeed a formidable task. Various modes of publicity and all organised channels of communication have to be resorted to.

The increasing complexity of international trade contracts has to be properly understood. A modern international contract is anything but simple. There are innumerable technical and procedural rules and practices existing in different countries which may often be conflicting and inconsistent with one another. Till such time as we reach a stage of world-wide standardisation and uniformity in the commercial laws of the various countries, it would be difficult for traders to safeguard their interests fully without competent legal advice. Whether it is in the drafting of an agreement or in the prosecution of an arbitration case, legal and procedural problems are bound to crop up. They may relate to the contractual obligations of the parties, questions relating to conflict of laws, banking and insurance practices, so on and so forth. The Indian Council of Commercial Arbitration should organise to provide competent legal advice in this field. It will be very useful if the arbitration council sets up regional panels of competent commercial lawyers to give legal advice on various issues to traders, on charging some fees. It is necessary that even the smallest exporter or importer gets such advice.

Important Link

Secondly, the council can function as an important link in the process of expeditious settlement of complaints and disputes, not necessarily by arbitration alone. It is true that there has been a welcome decrease in the number of complaints by foreigners against Indian parties in recent years. The total number of trade disputes has dropped to less than 400 a year. Complaints regarding quality have gone down from 124 in 1963 to 23 in 1966. This is mainly due to our successful efforts at quality control and pre-shipment inspection. Most of our export products, nearly 85 per cent, are now subject to quality control and pre-shipment inspection is enforced in the case of most of the items.

It is in our interest that disputes are not allowed to drag on wasting valuable time and hindering the pace and growth of commerce. We have to simplify the terms of settlement and provide for easy and quick disposal of complaints.

We can divide the claims settlements based on the value of claims in three broad tiers. Claims of smaller value, say below Rs 5,000, could be settled by a summary procedure with the least possible delay. Government can endow the arbitration council with summary authority to settle such cases. For claims of moderate value, we may stipulate a more detailed procedure. The complaint can be processed through the Indian Council of Commercial Arbitration in consultation with the chamber of commerce or trade association of which the Indian exporter or manufacturer against whom the complaint is lodged may be a member. Methods of conciliation or arbitration may

be adopted. It will be good if each export promotion council, regional or all-India trade association or chamber of commerce has a small cell specialised in arbitration and conciliation, which will function in co-operation with the arbitration council as the apex body. Disputes involving larger issues and bigger sums can be referred to mutually agreed arbitration by the council. When important legal questions and considerable money are involved, it is always better that they are referred to an impartial tribunal consisting of men of experience and knowledge from panels of arbitrators drawn up from the Bar Council in the country.

Venue of Arbitration

It has been the experience of traders from developing countries that, because of historical circumstances and their weak position at the bargaining counter, in the contracts entered into with traders from developed countries, the venue of arbitration is invariably fixed in the latter countries. Indian traders, as well as those from other developing countries, have frequently found it difficult, because of the acute foreign exchange position, to make use of the arbitration machinery in the developed countries. We have consistently argued for a change of the venue of arbitration to less-developed regions wherever it is feasible. With the establishment of arbitration bodies of comparable competence and integrity and internationally recognised rules of procedure of arbitration in these countries, it should not be difficult for traders in western countries to agree to the shifting of the venue of arbitration. When the Indian Council of Commercial Arbitration accumulates sufficient experience and adequate expertise and creates a world image, I have no doubt that India will be accepted as a venue of arbitration by the developed countries. The international seminar which is proposed to be held in Delhi during the time of the second UNCTAD in February 1968 will be an appropriate forum for drawing attention to this problem as well as other problems of special importance to developing countries in the field of international commercial arbitration.

International commercial arbitration, by its very nature, calls for efforts at international level. In the past decade or so, there has been increased awareness of the potentialities of arbitration as an instrument of settlement of disputes in foreign trade. Multilateral conventions have been adopted and international agencies, both inter-governmental and non-governmental, have promoted the knowledge and use of arbitration. It is being increasingly recognised as an important instrument for the development of international trade. Recently, the United Nations has established a special body for the purpose of the development of international trade laws. International arbitration law and procedure will be considerably helped by codification. Our institutions dealing with foreign trade should evolve representative Indian thinking both for the development and the codification of such law initiated by the United Nations Commission on International Trade Law.

ATTENTION SUBSCRIBERS

Non-Receipt of Copies

Subscribers are requested to intimate promptly non-receipt of copies of **EASTERN ECONOMIST**; otherwise it may not be possible to replace missing copies. While corresponding with us, please quote your subscription number.

Why Britain Can't Afford Common Market

PAUL EINZIG

IN SPITE of France's firm opposition to Britain's admission into the European Common Market, and in spite of the unwillingness of West Germany and other members of the EEC to antagonise France for the sake of Britain's admission, the British government is determined to continue to pursue its unattainable end. Yet there is not the slightest chance that General de Gaulle would ever change his mind. And his view that Britain is as yet not qualified for admission is shared by the majority of the French people, judging by the latest public opinion polls in France. So the outlook for Britain's admission will be anything but hopeful even after the General's retirement or death, which in any case may not occur for a number of years.

Why then, in the sacred name of reason and common sense, is the government so insistent on re-stating to boredom its determination to get Britain into the Common Market? Its persistent efforts to overcome General de Gaulle's resistance are absolutely doomed to failure, at any rate so long as the General remains in power, whatever may happen after his disappearance. Britain stands to gain absolutely nothing by this puerile obstinacy, and it stands to lose a great deal by it, in addition to losing face after each refusal.

If only member governments of the Commonwealth and of the Sterling Area realised that there is not the slightest chance for Britain to be admitted during the next few years and very little chance later, they would refuse to take Mr Wilson's declared determination seriously. It would be a great mistake if they were to write off the Sterling Area at any rate at this stage. Although the British government is quite willing to abandon the Sterling Area for the sake of being admitted into the Common Market, General de Gaulle insists also on other conditions some of which are simply impossible to fulfil.

Agonising Uncertainty

The result of the futile agitation is an atmosphere of agonising uncertainty which is highly damaging to Britain's economy. It tends to increase the difficulty to the solution for the sterling problem. The worst aspect of the uncertainty created by the efforts to join the Common Market at all costs is one which does not seem to have received any attention. It is that it effectively discourages British industrial firms to engage in capital investment, until it becomes clear whether Britain would be admitted or not, and until the effects of its admission on particular industries become evident.

Although I am fully satisfied that there can be no question of Britain's entry at least until the early 'seventies, most people are misled by the government's display of futile optimistic determination to gain admission. And it is all very well for me to be certain. I don't have to take decisions on investment based on my opinion. I fully understand the reluctance of responsible industrialists to commit their shareholders' money to investment plans based on the assumption that Britain would stay out of the Common Market. And even the most fanatically enthusiastic supporters of Britain's entry among the industrialists would hesitate to embark on some major capital investment project which would only be justifiable if Britain joined the Common Market. Most responsible businessmen realise that an error of judgment about the prospects of Britain's entry would mean the creation of capacity of the wrong kind.

Nor is this all. Even if we were admitted tomorrow it would take years before the effect of our admission on various British industries and on individual firms became evident. Unduly hasty investment based on the assumption that Britain would be admitted might inflict grave losses on firms which have miscalculated the effect of our admission on their particular firm. It is anybody's guess how the export prospects and

domestic markets of any industry would be affected.

For this reason, prudently managed firms, instead of gambling on Britain's admission and on the assumption that they are bound to benefit by our admission, or alternatively on the assumption that Britain would never join the EEC, prefer to accumulate liquid capital which would become available if and when Britain is admitted, after it becomes evident how particular firms are likely to be affected or if Britain definitely abandoned her plans to join the EEC.

Meanwhile capital expenditure is kept down. It is for this reason and not because of the effects of "stop-go" that Britain has been lagging behind other industrial countries ever since the late 'fifties in respect of the rate of investment expenditure by the private sector of the economy. In itself "stop-go" would not discourage efficient firms which are quite willing to put up with the lean years of the "stop" phase for the sake of being equipped for taking full advantage of the fat years of the "go" phase.

But the uncertainty created by the ups and downs of the prospects of our admission into the Common Market—uncertainty that has been going on since the late 'fifties and for which both Conservative and Labour governments are fully responsible—is a totally different matter. If a firm equipped itself for large-scale production for the west European markets and if France definitely vetoed Britain's entry, the capital expenditure involved could be written off as a dead loss. Rather than risk that, firms prefer to await developments.

If only the government realised this aspect of the problem it might come to the conclusion that its Common Market propaganda is highly damaging to Britain's industrial capacity. Possibly Mr Wilson might then come to realise that prosperity is, after all, more important than propaganda.



Kiron
THE LAMP THAT
LIGHTS & LASTS

MANUFACTURED BY:
SHARAT ELECTRICAL INDUSTRIES LTD.
19, RAJENDRANATH MUKHERJEE ROAD,
CALCUTTA-1

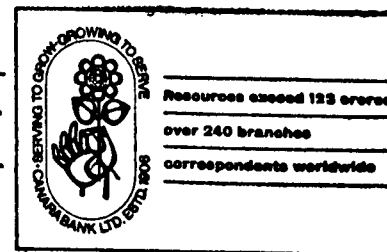
AGENTS:
THE ORIENTAL MERCANTILE CO., LTD.
CALCUTTA BOMBAY MADRAS DELHI
KANPUR

TIME WAITS FOR NO ONE

... was never more true than in the all-important matter of providing adequately for your loved ones. Life is uncertain—do not leave them unprotected and unprepared. Make a will today—whatever your properties or assets, the Canara Bank gladly offers to serve



as your Executor or Trustee. The future of those you love is thus fully and confidently provided for. If you have not already done so, call on the Canara Bank today—don't delay—time waits for no one.



CANARA BANK LTD.

Regd. Office: Lighthouse Hill, Mangalore. Admn. Office: 112, Jayachamara jendra Rd, Bangalore.

SISTA'S-CB-23

Trading with Tokyo

A Correspondent

WHEN THE industries in this country, urge the removal or reduction of export duties, the union Ministry of Finance is unwilling to listen because of its anxiety not to lose revenue but when the demand for revision in export duties comes from our important customers abroad, the ministry can hardly afford to remain indifferent. When the industrial delegation, sponsored by the Federation of Indian Chambers of Commerce and Industry, during its recent visit to Japan asked the latter to reduce import duties on certain items, the Japanese businessmen promptly suggested that the delegation should seek the reduction of export duties levied by the Government of India. The delegation wanted Japan to reduce the import duties on jute fabrics, bags and sacks, coir mats and matting, and sheep and goat skins, while Japan insisted on the reduction of the export duties on manganese ore, oil cakes, raw cotton and mica. It is a fact that both this country and Japan have been keen to expand and diversify their trade with each other and if the customs duties stand in the way, both the countries should be prepared to consider suitable adjustments in them.

Our exports to Japan increased from \$114.12 million in 1965 to \$134.70 million in 1966 while our imports from that country declined from \$175.67 million to \$144.92 million in the same period. There is, of course, considerable scope for increasing the export of traditional goods and also non-traditional items. For example, Japan plans to import 60 million tonnes of iron ore in 1967, of which this country's share would be about 20 per cent. Japan is reported to have agreed to consider increasing our share to 30 per cent provided the price is competitive, supplies of desired specifications are offered and transport and port facilities are improved. The delegation's report says that if the doubts that Japan entertains regarding our ability to supply iron ore on a regular long-term basis can be dispelled, there will be scope for larger off-take of this item. The economic ministries at the centre as well as in the states concerned should therefore energetically co-operate with one another in order to tackle the problems relating to the improvement in facilities for movement of ores by railways, roads and ships; the levy of royalty, sales tax and other local taxes; and provision of adequate finance for expediting the mechanisation programme of mines. Other goods which have better prospects in Japan are chrome ore, bauxite, ilmenite, coal, monazite and other mineral sands, iron and steel scrap, oilseeds and oilcakes.

New Items

Among the new items that our country can offer to Japan the more important are chemicals, human hair, precious and semi-precious stones, bananas, food products, handlooms and handicrafts. Japan imports about 200 varieties of chemicals and products such as rosin can have a good demand there. The techniques for export promotion vary from commodity to commodity but, generally, regular supplies of good quality and competitive prices should greatly facilitate increased exports. The Japanese do not appear to have been satisfied with the quality of our raw cotton, sheep casings, salt, sheep skins and hides, and tobacco. The Ministry of Commerce should look into this complaint.

Proper publicity is also important. For example, our embassy in Tokyo recently pointed out that the Japanese public knew little about cashewnuts which they consume in one form or the other. Our exports of cashewnuts to Japan more than doubled from 219,490 kgs in 1961 to 564,719 kgs in 1964 but thereafter declined steadily to 513,839 kgs in 1965, 455,705 kgs in 1966 and 269,317 kgs in the first seven months of 1967. Our country is the largest single supplier of cashewnuts to Japan but, in view of the likelihood of greater competition from east Africa in the coming years, it is necessary to strengthen our

publicity. For our tea also, intensive publicity may help over a period since the Black Tea Importers' Association of Japan has been trying to increase the consumption of tea. Imports of Ceylonese tea have been of the order of five million lbs per year but imports from our country have been relatively small. If Japan agrees to reduce the import duty on tea, now levied at 35 per cent, it will help to increase our exports to some extent.

The Indian delegation has suggested a joint study to indicate the areas of expansion in exports. The Japanese businessmen are said to have agreed with this proposal and expressed the view that semi-manufactured products would gradually take the place of primary commodity exports. Discussions have also been held on the possibilities of Japanese business houses setting up units in our country for producing goods for export to Japan and to third countries. But such studies and schemes can work smoothly only if our economy revives rapidly. The Japanese businessmen are said to have expressed concern over the continuous rise of commodity prices in this country which makes investment in new industries difficult. If the Government of India wants to dispel such impressions and assure investors from Japan and other countries about the soundness of our economy, it is necessary for the union Ministry of Finance to adopt some positive measures for the revival of confidence. Japan's economic growth has been attributed, among other things, to the vigorous introduction of foreign technology and the system of bank finance to industrial investment which is based on increasing savings by individuals. Japan's foreign trade has seen "unprecedented expansion" in the last ten years, the exports rising from \$2,860 million in 1957 to \$9,780 million in 1966, and imports from \$4,280 million to \$9,520 million in the same period. The increase in exports was particularly outstanding in the last three years, being 22 per cent in 1964, 27 per cent in 1965 and 16 per cent in 1966. In these as well as in other matters, New Delhi has a good deal to learn from Tokyo.

Eastern Economist 20 Years Ago

NOVEMBER 28, 1947

The first budget of the independent Government of India in contrast with the first budget of the Interim Government last February, seems to have been presented with the sole aim of raising as few controversies as possible. Its main justification in fact is the prosaic one stated in the opening paragraphs of the budget speech, that the original budget having lapsed after Independence Day, it was considered desirable, even if it was not actually necessary, to get the expenditure and revenue estimates of the current year certified by the Constituent Assembly. A budget which had this restricted aim was bound to be colourless, and the Finance Minister's speech contained, as a matter of fact, no big surprises except perhaps the decision to leave the deficit largely uncovered. This is welcome news in itself. In existing circumstances, when practically everything that is happening is unexpected and unsettling, a budget which preserves the status quo, and aims at no sudden or startling experiments, is basically sound. But was it necessary to have taken the status quo so much for granted that even minor adjustments here and there were ruled out? The Finance Minister seems to have been too cautious in answering this question.

WINDOW ON THE WORLD

Wage Costs in the EEC

JOSSLEYN HENNESSY

LONDON:

THERE ARE few more deceptive sets of statistics than the international comparative "league" tables so often banded about by those with axes to grind. Economists are, of course, aware of the immense difficulties of building up international statistics that are anything approaching true comparisons, but few politicians, commentators, and other laymen have any idea of (1) the complicated calculation involved, (2) the arbitrary assumptions that are often necessary, (3) the methods used, and (4) the many points that often remain in doubt.

The Economist Intelligence Unit (27 St. James's Place, London, S.W. 1.) has just rendered a double service (a) by producing an analysis of wage costs in the European Economic Community, which is of great interest in itself and (b) by setting forth the problems of methodology involved, which should be extremely instructive to laymen and a warning to them of the need for caution in international comparisons.

The adjoining tables attempt to compare the total cost of an employer of an hour's labour in the manufacturing industries of each of the EEC countries, except Luxemburg (the data on which are insufficient).

The bases for the tables are the periodic enquiries carried out by the EEC Commission and the European Coal and Steel Commission into wage costs in various sectors of the Community's manufacturing industry, and published in the EEC Social Statistics series. The surveys so far made cover 37 different sectors: 13 of them show wage costs in 1961, 16 in 1962 and eight in 1963. Altogether the sectors covered over six million workers, i.e., rather over a quarter of those employed in the manufacturing industry of the EEC. The sample is thus large enough to be able to draw fairly firm conclusions.

The First Problem

The first problem was the date of the surveys. There have been substantial increases in wage costs since 1963, let alone 1961. In all of the Six there are, however, sector by sector figures of percentage changes in wage rates, many of which have been collected by the French National Institute of Statistics and Economic Studies, and increases between the date of each enquiry and October 1965 have been calculated. For those sectors for which no information on wage rate changes are available, the Economist Intelligence Unit estimated the increases on the basis of the rises registered in the country concerned in comparable sectors of manufacturing.

By grafting these percentage increases in wage rates onto the original wage cost figures, the EIU got estimated wage-cost figures for all 37 sectors in October 1965. But this estimate assumes that other wage cost items rose as rapidly as did wage rates. Unfortunately, in any attempt to make reasonably up to date and comparable estimates of wage costs, one has to make this assumption. The EIU stresses, however that in no country is it really justifiable. The legal scales of social security charges (generally payable as a certain percentage of wages rather than as flat rates) have been stepped up. Holidays have become longer—and to arrive at true wage costs one has to add the hourly equivalent of the burden put on the employer by holidays with pay. Overtime rates have been increased. In attempts to attract generally scarce labour, expenditure on additional, non-compulsory, social payments have been rising rapidly and employers have tended to spend more and more on special benefits. In all countries, therefore, total wage costs have been rising considerably faster than wage rates. Fortunately, this development has been along parallel lines in all the EEC countries. Thus though the absolute wage-cost figures

in the tables are on the low side, they are probably right in relation to one another. For this reason the wage cost figures for all countries in Table I are about five per cent too low, and those in Table II perhaps seven per cent too low.

TABLE I
ESTIMATED COST OF AN HOUR'S LABOUR BY MAIN
BRANCHES OF E.E.C. MANUFACTURING INDUSTRY
October 1965.

	US \$				
	W. Germany	France	Italy	Nether-lands	Bel-gium
Food products & drinks	1.27	1.04	1.23	1.14	1.11
Textiles, clothing, footwear, etc.	1.21	0.97	1.00	0.97	0.96
Paper & wood products	1.33	1.10	1.09	1.23	1.23
Building materials	1.47	1.27	1.19	1.30	1.42
Chemicals & rubber	1.67	1.44	1.51	1.46	1.42
Metals & engineering	1.60	1.39	1.05	1.45	1.48
Other manufacturing	1.41	1.24	1.27	1.18	1.14
All manufacturing	1.48	1.34	1.10	1.26	1.31

In progressing from these 37 generally rather small sectors to the seven broad branches of manufacturing in Table I the EIU weighted the sectors according to total employment in each of these in the Community as a whole. The branch by branch figures thus indicate the comparative level of costs which a manufacturer of a given product could expect to meet in the different EEC countries. Had the weighting varied according to the size of each sector in each country, the figures would largely reflect the pattern of industry in that country. Thus the food products and drink figure for the Netherlands would over-stress the large chocolate and confectionery industry (in which wage costs are exceptionally low), but would insufficiently reflect what a brewer would have to pay for labour if setting up in Holland. Note that average wage-cost figures for different countries are a valuable guide only because a high-cost sector in one country will prove to be high cost in another.

It should be noted about Table I that there are no wage-cost figures for five of the 37 sectors in the Netherlands, and for one in Belgium, mainly because these sectors are unimportant in these countries. In order to arrive at the branch by branch figures in the table the EIU was compelled to estimate hypothetical wage-cost figures for the particular sector through an arithmetical mean of the amounts by which wage costs in that country exceeded or fell short of those in other countries in other sectors within that particular branch of manufacturing.

Table II, derived from Table I, shows the range of variations of wage costs in each of the EEC countries. The average figure is taken from Table I. The extreme figures are sector

TABLE II
RANGE OF COSTS OF AN HOUR'S LABOUR IN E.E.C.
MANUFACTURING INDUSTRY
October 1965.

	US \$		
	Average	Lowest	Highest
West Germany	1.48	1.05	1.88
France	1.34	0.84	1.68
Italy	1.10	0.87	1.74
Netherlands	1.26	0.73	1.86
Belgium	1.31	0.82	1.76

figures, found in Table I. Differences between countries are of limited significance. When the extreme figures are far apart, this does not, as you might suppose, mean that wages are evenly distributed between the extremes, because some of the extremes apply to exceptionally high or low-paid sectors.

Table III differs from the first two. It is taken from the most recent EEC surveys available in complete form: those for 1962 and 1963 and published in 1965; it shows the composition of wage costs in each country by type of cost. Though its

TABLE III
PERCENTAGE COMPOSITION OF WAGE COSTS IN E.E.C.
MANUFACTURING INDUSTRY 1962-1963

	W. Germany	France	Italy	Nether-lands	Bel-gium
Average breakdown					
Direct wage payments*	78	66	59	77	77
Other payments to employees†	5	6	9	6	4
Other wage cost elements††	17	28	32	17	19
of which: legally compulsory	12	24	27	11	16

* Direct wage costs and cost per hour of holiday pay.
† Various bonuses and benefits in kind.

†† Besides legally compulsory social charges, these normally include additional social charges (quite important in the Netherlands, West Germany and France) built into wage contracts or conventionally or voluntarily paid by firms in order, for instance, to attract workers; the cost per hour to employers of official co-operative, or individual worker-training schemes (these are important in Italy, and quite significant in the Netherlands, West Germany and France); and other special wage-cost items, including notably the French payroll tax.

coverage of manufacturing is somewhat less complete than for Tables I and II, this does not matter much, since in any one country the percentage breakdown of wage costs by type of cost does not vary much from sector to sector. This can be seen in Table IV, which shows the highest, the lowest, and the average level of payments to employees as a percentage of all wage costs. The main weakness of the table is that it refers to 1962 and 1963 only. It is impossible to bring it up to date because no branch by branch data on the recent evolution of the various wage cost items is available. It is, however, reasonable to suppose that these proportions have remained nearly constant since 1963. If the proportion of direct wages has certainly fallen, this is compensated for by the fact that the proportion of holiday pay has generally increased.

TABLE IV
PAYMENTS TO EMPLOYEES AS A PERCENTAGE OF
WAGE COSTS

	W. Germany	France	Italy	Nether-lands	Bel-gium
Average	83	72	62	83	81
Highest	85.2	73	72	86	83
Lowest	78.8	70	64	79	80

Tables I and III to some extent reflect the typical size of firm in the manufacturing industry of each country, and the regional distribution of manufacturing, because big firms generally pay more than small, and in all countries there are substantial regional differences in wage costs. Table V and VI show how important these factors can be. Both were built up in much the same way as Table III from data published in the EEC's 1965 survey. In general there have been few changes in the pattern of wage costs by size of firm since then, but differences between regions may have widened further.

There are no adequate regional figures available on Belgium or Holland (the difference would in any case be small), and

the information on the amount by which wage costs in the larger firms in these two countries exceed the average for all manufacturing industry has a restricted significance, because it pertains to a few large firms, generally in one or two sectors. Finally, the Italian regional figures are prepared on a province-by-province basis. The highest recorded figure is for Piedmont, a relatively large province which includes the major industrial area of Turin. Wage costs were probably even higher than this in the Turin urban area itself and in that of Milan (data on which are included in the figures of Lombardy).

TABLE V
HOURLY WAGE COST VARIATIONS IN E.E.C. MANUFACTURING INDUSTRY IN 1964 BY SIZE OF FIRM
(Approximate percentage amount by which costs exceed or fall short of the average for all manufacturing industry in each country)

	Number of employees				
	(50-99)	(100-199)	(200-499)	(500-999)	(1,000+)
W. Germany	-9	-7	-1	+3	+10
France	-12	-11	-8	+8	+19
Italy	-10	-7	-1	+15	+20
Netherlands	-5	-3	+1	+9*	...
Belgium	-17	-10	-4	+11*	+27*

* Very small sample, significance questionable.

TABLE VI
APPROXIMATE RANGE OF REGIONAL VARIATIONS IN
HOURLY WAGE COSTS IN E.E.C. MANUFACTURING
INDUSTRY IN 1964
(Percentage amount by which costs exceed or fall short of the average for all manufacturing industry in each country)

	In highest wage-cost area	In lowest wage-cost area
W. Germany	+13 (Hamburg)	-7 (Bavaria)
France	+24 (Paris)	-15 (Massif Central)
Italy	+10 (Piedmont)	-14 (The South)

Source and Acknowledgments: This analysis of wage costs in the EEC is summarised, by special arrangement, from the latest issue of the EIU's quarterly review "European Trends".

European Growth in 1966

Provisional national accounts show a general slow-down in the rate of economic expansion in 1966. Only four countries—France, Italy, Austria, and Switzerland—recorded a higher growth rate than in 1965, while seven—including France and Italy—failed to reach four per cent.

ESTIMATES OF GROSS NATIONAL PRODUCT OF THE E.E.C.
AND E.F.T.A.: 1966

	GNP at 1965 market prices (\$ mn)	Percent change 1965-66
EEC		
Belgium	17,075	2.0
France	96,730	3.5
Italy	58,830	3.7
Netherlands	19,780	4.3
W. Germany	114,560	2.1
EEC*	307,010	4.0
EFTA		
Austria	9,583	4.3
Denmark	10,285	3.0
Norway	7,359	5.1
Portugal	3,969	6.1
Sweden	19,904	3.1
Switzerland	14,460	5.6
UK	100,670	1.5

* Including Luxemburg.

Source: Economist Intelligence Unit estimates based on EEC and OECD statistics.

ANNOUNCEMENT REGARDING THE PROPOSED ISSUE OF EQUITY SHARES

This is only an announcement and not a Prospectus. Persons interested are requested to obtain copies of the Prospectus and Application Forms which are available from the Bankers to the Issue and Brokers hereunder mentioned.

THE SUBSCRIPTION LIST WILL OPEN AT THE COMMENCEMENT OF BANKING HOURS ON MONDAY THE 4TH DECEMBER, 1967 AND WILL CLOSE AT THE CLOSE OF BANKING HOURS ON THURSDAY THE 14TH DECEMBER, 1967 OR EARLIER, AT THE DISCRETION OF THE BOARD OF DIRECTORS, BUT NOT EARLIER THAN THE CLOSE OF BANKING HOURS ON FRIDAY THE 8TH DECEMBER, 1967.



BROOKE BOND INDIA LIMITED

(Incorporated as a Private Company on the 26th September, 1912 under the Indian Companies Act, 1882 and became a Public Company on the 31st October, 1967).

Registered Office: "Brooke House", 9, Shakespeare Sarani, Calcutta.

LOCATION OF INDUSTRY

At present the Company operates six tea factories and two coffee factories which are engaged in the manufacture of its well-known brands of packeted tea and coffee. The tea factories are situated at Calcutta (West Bengal), Coimbatore (Madras State), Ghatkesar (near Hyderabad in the State of Andhra Pradesh), Kanhan (near Nagpur in the State of Maharashtra), Jamnagar (Gujarat State) and Tundla (near Agra in the State of Uttar Pradesh). The two coffee factories are situated at Ghatkesar and Coimbatore.

EXISTING AND PROPOSED ACTIVITIES

The Company is both a manufacturer and distributor. It is engaged in the manufacturing processes of blending and packing tea and coffee; and it distributes these products both in India and abroad. Its considerable export shipments are in the form of both original bulk teas and packet teas, particularly the former.

At present it operates six tea blending and packing factories and two coffee factories which are engaged in the manufacture of its well-known brands of packeted tea and coffee.

Besides the tea and coffee factories, the Company has a fully equipped engineering workshop at Calcutta which is primarily engaged in building automatic high speed packing machines and high speed printing and packet making machinery and also maintains ancillary technical departments at several of its factories which handle a large and increasing part of its packing material requirements.

The coffee factory at Ghatkesar now also includes an instant coffee plant. This is a brand-new installation and heralds the Company's recent entry into a new field of activity. The plant is one of the largest and most modern units of its kind in India. The Company believes that instant coffee consumption in India will grow. It also intends to use its best endeavours to promote the export of instant coffee to overseas markets. The Ghatkesar plant has ample capacity to meet anticipated increases in demand both in India and abroad.

The tea factory at Tundla is also a brand-new installation which has only recently gone into production. The Company has plans to extend the factories at Tundla and Kanhan.

SHARE CAPITAL

- (a) **Authorised:**
84,00,000 Equity Shares of Rs. 10/- each ... Rs. 8,40,00,000
- (b) **Issued, Subscribed and Fully Paid-up**
50,25,000 Equity Shares of Rs. 10/- each ... Rs. 5,02,50,000

PRESENT ISSUE

- 16,75,000 Equity Share of Rs. 10/- each for Cash at a premium of Rs. 3 per share ... Rs. 1,67,50,000
- Out of the present issue:
- (i) The Directors have reserved for employees of the Company 1,67,500 Equity Shares of Rs. 10 each at a premium of Rs. 3 per Share; to the extent to which these Shares are not taken up by the employees they will then be available for meeting applications from the public ... Rs. 16,75,000
- (ii) Now offered for public subscription 15,07,500 Equity Shares of Rs. 10 each at a premium of Rs. 3 per Share ... Rs. 1,50,75,000
- Rs. 1,67,50,000

APPLICATION AND TERMS OF PAYMENT

Applications for Shares must be for a minimum of 50 Shares or multiples of 50 Shares and the amount payable is as follows:

- (i) On Application:
Rs. 6.50 per share (including a premium of Rs. 1.50 per share).
- (ii) On Allotment:
Rs. 6.50 per share (including a premium of Rs. 1.50 per share).
Failure to pay the amount due on allotment will render the Shares (including the amount payable on application) liable to forfeiture.

UNDERWRITERS

Name and Address	Amount Underwritten	
	Nominal Value Rs.	Value at Issue Price Rs.
National and Grindlays Bank Limited 19, Netaji Subhas Road, Calcutta-1.	60,00,000	78,00,000
The Central Bank of India Limited Mahatma Gandhi Road, Fort, Bombay-1.	40,00,000	52,00,000
The Bank of Baroda Limited, 20, Old Court House Street, Calcutta-1.	30,00,000	39,00,000
The Indian Bank Limited, "Indian Chamber Buildings", Post Box 1384, Madras-1.	10,00,000	13,00,000
The Investment Corporation of India Limited, Ewart House, Bruce Street, Fort, Bombay-1.	7,50,000	9,75,000
Place, Siddons & Gough (Private) Limited, 6, Lyons Range, Calcutta-1.	15,00,000	19,50,000
Batlivala & Karani, Union Bank Building, Dalal Street, Bombay-1.	1,50,000	1,95,000
Merwanjee Bomanjee Dalal, Allahabad Bank Building, Apollo Street, Bombay-1.	1,00,000	1,30,000
Harbans Singh Mehta & Co., 33, Regal Building, Parliament Street, New Delhi-1.	1,50,000	1,95,000
Paterson & Co., 11-12, Second Line Beach, Madras-1.	1,00,000	1,30,000

BOARD OF DIRECTORS

- MR. JAMES GORDON ROBINSON, 22, Lee Road, Calcutta-20,
Chairman and Managing Director.
- MR. DAVID BROOKE, "Witneys", Upper Basildon, Nr. Reading,
Berks, England.
- MR. ROY FRANCIS FURBER, "Waterkloof", Mill Road, Ship-
lake, Honley, Oxon, England.
- MR. DIPTI KUMAR BASU, 24B, Lake View Road, Calcutta-29
(Alternate for Mr. Roy Francis Furber).
- SIR UDAY CHAND MAHTAB, Maharajadhiraja of Burdwan,
Bijay Manzil, 2, Judges Court Road, Calcutta-27.
- MR. DAYANAND CHANDULAL KOTHARI, Kothari House, 3,
Kothari Road (Off Sterling Road), Nungambakkam,
Madras-34.
- MR. JOHN COLLINGWOOD BROCK, 9, Shakespeare Sarani,
Calcutta-16, Tea & Coffee Buying Director.
- MR. PALAMADAI RAJAMIER NEELAKANTAN, 170/50, Prince
Anwar Shah Road, Lake Gardens, Calcutta-45, Finance
Director.

MANAGING DIRECTOR

- MR. JAMES GORDON ROBINSON, 22, Lee Road, Calcutta-20.

SECRETARY

- MR. TUMULURU KRISHNA MURTY, 9, Shakespeare Sarani,
Calcutta-16.

BANKERS TO THE ISSUE

- State Bank of India (at their offices at Agra, Ahmedabad, Ajmer, Allahabad, Amritsar, Ambala, Aurangabad, Bangalore, Baroda, Belgaum, Bhopal, Bombay, Calcutta, Chandigarh, Coimbatore, Cuttack, Delhi, Dhanbad, Ernakulam, Gauhati, Hyderabad, Indore, Jalgaon, Jullundur City, Jamshedpur, Kanpur, Lucknow, Madras, Mangalore, Nagpur, New Delhi, Patna, Panjim, Poona, Rajkot, Sholapur, Srinagar, Surat, Tiruchirappalli, Trivandrum, Vijayawada, Visakhapatnam.)
- National and Grindlays Bank Ltd. (at their offices at Amritsar, Bangalore, Bombay, Calcutta, Cochin, Delhi, Gauhati, Hyderabad, Kanpur, Madras, New Delhi, Srinagar, Simla.)
- The Central Bank of India Ltd. (at their offices at Agra, Ahmedabad, Akola, Allahabad, Amritsar, Ambala, Aurangabad, Bangalore, Baroda, Belgaum, Bombay, Calcutta, Chandigarh, Coimbatore, Cuttack, Delhi, Ernakulam, Gauhati, Hyderabad, Indore, Jamnagar, Jamshedpur, Jullundur City, Kanpur, Lucknow, Madras, Mangalore, Nagpur, New Delhi, Patna, Panjim, Poona, Rajkot, Surat, Srinagar, Tiruchirappalli, Trivandrum, Vijayawada.)
- The Bank of Baroda Ltd. (at their offices at Agra, Ahmedabad, Ajmer, Allahabad, Amritsar, Bangalore, Baroda, Bombay, Calcutta, Chandigarh, Coimbatore, Cuttack, Delhi, Dhanbad, Hyderabad, Indore, Jamshedpur, Jullundur City, Kanpur, Lucknow, Madras, Mangalore, Nagpur, New Delhi, Patna, Panjim, Poona, Surat, Tiruchirappalli, Trivandrum, Vijayawada.)
- The Indian Bank Ltd. (at their offices at Ahmedabad, Bangalore, Bombay, Calcutta, Coimbatore, Delhi, Ernakulam, Jamshedpur, Madras, Mangalore, New Delhi, Poona, Tiruchirappalli, Trivandrum, Vijayawada.)

MANAGING BROKERS

- Place, Siddons & Gough (Private) Limited, 6, Lyons Range,
Calcutta-1.

BROKERS

- CALCUTTA**
Place, Siddons & Gough (Private) Limited, 6, Lyons Range,
Calcutta-1.
G. M. Pyne, Allahabad Bank Building, 14, India Exchange
Place, Calcutta-1.
Chunilal T. Mehta, 8, Lyons Range, Calcutta-1.

BOMBAY

- Batlivala & Karani, Union Bank Building, Dalal Street,
Bombay-1.
Merwanjee Bomanjee Dalal, Allahabad Bank Building, Apollo
Street, Bombay-1.
Lewis & Jones, Bank of Baroda Building, Apollo Street,
Bombay-1.
Harkisondass Lakhmidass, Stock Exchange Building, Apollo
Street, Bombay-1.

MADRAS

- Paterson & Co., Vanguard House, 11-12, Second Line Beach,
Madras-1.
Kothari & Sons, "Oriental Buildings", Armenian Street,
Madras-1.
Chitra & Co., 322-323, Linghi Chetty Street, Madras-1.

DELHI

- Harbans Singh Mehta & Co., 33, Regal Building, Parliament
Street, New Delhi-1.
Raj Paul Chadha & Co., Delite Cinema Building, Asaf Ali Road,
New Delhi.
H. P. Mehta & Co., Connaught House, Connaught Place, New
Delhi.
Raja Ram Bhasin & Co., Jewan Mansion, 8/4, Desh Bandhu
Gupta Road, New Delhi.

AHMEDABAD

- Chinubhai Chimanlal Dalal, Fatehbhai's Haveli, Ratanpole,
Ahmedabad-1.

BANGALORE

- M. Nanjappaiah Jahgirdar, 205, Cavalry Road, Bangalore-1.

SOLICITORS

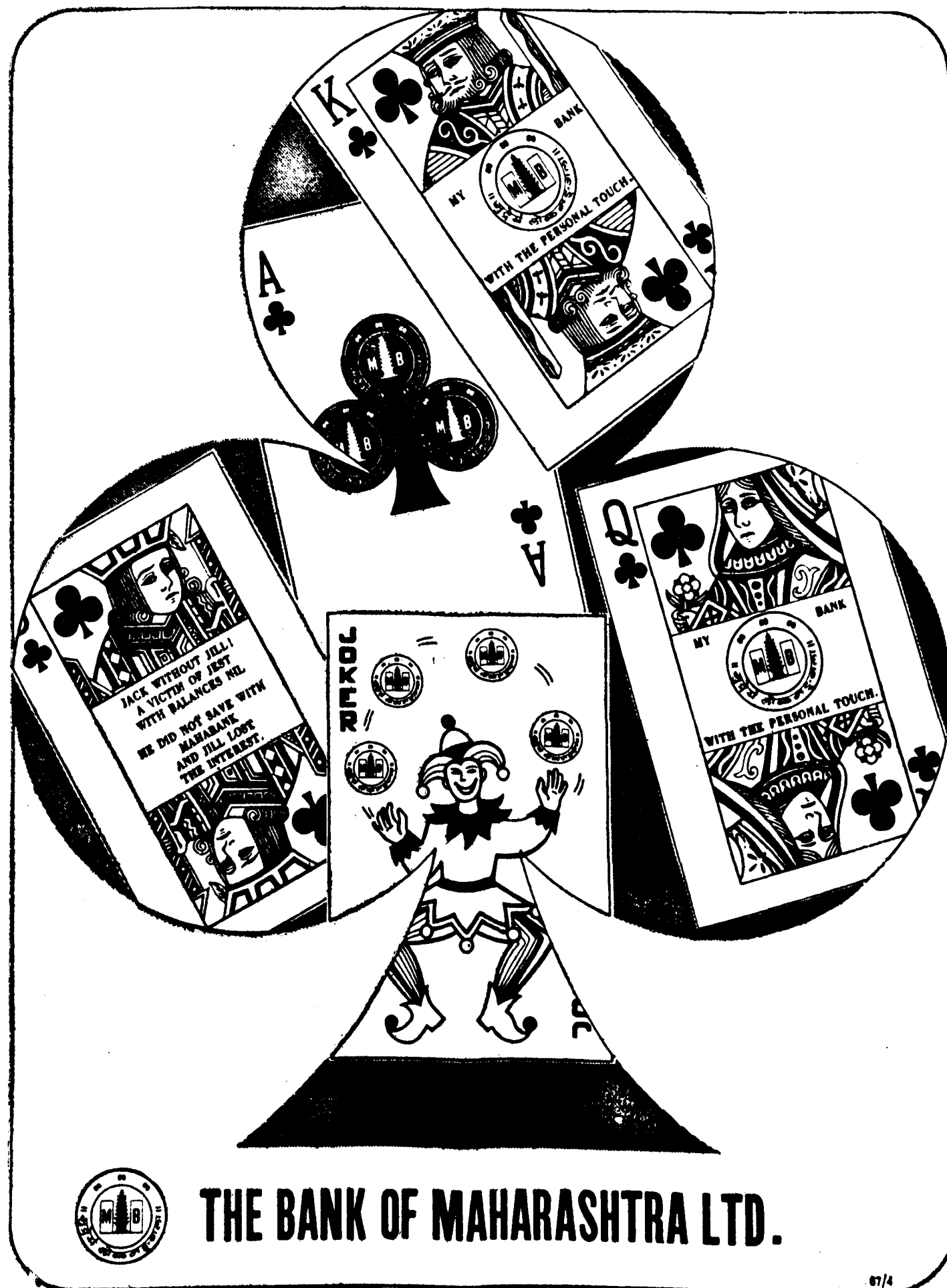
- Orr, Dignam & Co., 29, Netaji Subhas Road, Calcutta-1.

AUDITORS

- Price Waterhouse Peat & Co., B-4, Gillander House, Netaji
Subhas Road, Calcutta-1.

REGISTRARS

- Andrew Yule & Company Limited, 8, Clive Row, Calcutta-1.



THE BANK OF MAHARASHTRA LTD.

67/4

The moving finger writes

LUCKILY FOR Mrs. Indira Gandhi, birthdays come only annually. Look how she fared last Sunday. It seems she sat up the whole night and through the early hours of the morning, pouring over papers—the government, as everybody knows, runs on files. I hope she was able to go to sleep promptly at least after she managed to get to bed, for time is one thing which Mrs. Gandhi does not seem to have enough of. In fact, she could not even manage to have a proper breakfast on her birthday before visitors started calling on her to greet her. It is possible that Mrs. Gandhi is none the worse for all this murderous pace, but I doubt it. For instance, one had to be very naive or mentally exhausted through overwork to have been blind, as she evidently was, to the political implications of that Mangla dam message—and since I have never doubted that Mrs. Gandhi has her wits about her, I could only conclude that she does not allow herself sufficient time or energy to think about things.

Talking of the Mangla dam message, I have come across an interesting suggestion that this was a piece of diplomacy, perhaps even more casual than is generally suspected. There is a certain gentleman called Dr. J. W. Strobl of Austrian nationality, who, until some time ago, was representing in this country with great distinction a group of West German industries having considerable stakes in our industrial projects. Dr. Strobl is now doing liaison work for the Pakistan government with the World Bank and is naturally enthusiastic about the Mangla dam and connected schemes. During his tenure in New Delhi he befriended, and was befriended in turn by many journalists in our country and was highly regarded by them. I myself had our country and still have pleasant relations with him and I value them greatly. The Information Adviser to the Prime Minister, Mr. B. G. Verghese, I believe, was also one with whom Dr. Strobl had a great deal to do by way of normal and legitimate press relations while Mr. Verghese was a senior member of the editorial staff of 'The Times of India'. The story that I now hear is that it was Dr. Strobl who talked to Mr. Verghese about how fine it would be were our Prime Minister to send a message congratulating the President of Pakistan on the completion of the Mangla dam and that Mr. Verghese, in turn, spoke to the Prime Minister about it. If this account is true, it does great credit to Dr. Strobl and confirms me in my estimate of him as a highly talented and dedicated public relations expert, who could always be relied upon to serve his clients well.

It is strange that even such a sensible person as Mr. Morarji Desai should succumb so readily and so often to the seductions of the public platform. His discourse at the World Vegetarian Congress last week was clear evidence that his speech-making is now entering the stage of diminishing returns. As reported in the press—and I have before me the account in 'The Statesman' of November 19—it was a meaningless meandering of words. It is, however, just possible that Mr. Desai suffered through poor reporting. Even if this were so, he had only himself to blame. If Ministers and political leaders decide to speak less often in public and practise greater selectivity with regard to occasions and subjects, news editors may take more interest in arranging for adequate and competent reporting. As it is, it is becoming difficult to stir a spark of interest in even the rawest of cub reporters with assignments of reporting VIP speeches.

Talking of 'The Statesman', it is sad to see its "New Delhi

Notebook" come down so badly in the newspaper world. Time was when it was the finest writing of its kind in the Indian or any press and I was pleasantly surprised indeed to find that its quality was being kept up after a fashion even after Mr. Charlton had moved away from New Delhi to Calcutta. Now, however, 'The Statesman' apparently does not have the talent on its New Delhi editorial staff to do justice to this feature. The first two paragraphs of the "Notebook" this week were childish in thought and writing and the last mere gibberish—and there was little in between that was redeeming. Even without the grammatical mistakes, through oversight or otherwise, or the intrusions of the printer's devil, it was a dismal enough performance.

I am glad that Mr. Satya Narayan Sinha's period of probation in Mrs. Indira Gandhi's second government has now been completed to the satisfaction of the latter. His being placed in charge of the Ministry of Health, Family Planning and Urban Development implies the demotion in a sense of Dr. S. Chandrasekhar, who has ceased to hold independent charge of the Health and Family Planning portfolios and will hereafter handle Family Planning under the overlordship of Mr. Sinha. It is not necessary to entertain the fear, however, that the family planning programme too has been demoted. On the contrary, with the veteran Mr. Sinha, with his rank as a full member of the union cabinet, at the head of the ministry, the claims and requirements of the family planning programme may now carry greater weight with the government in respect of the allocation of finance and other resources. As for Dr. Chandrasekhar, I believe that, while he is sensitive enough to be hurt by the thought that the campaign which some members of the Congress parliamentary party have been carrying against him seems to have had its influence on the Prime Minister, he is also ebullient enough to recover his spirits and work as enthusiastically as ever for the success of the family planning campaign. To every man his passion—and Dr. Chandrasekhar certainly has his. Of Mr. Morarji Desai it could be said that he loves democracy sufficiently more than prohibition to accept loyally the people's verdict were they to vote for the repeal of the drink laws. Dr. Chandrasekhar's loyalty is more monolithic. Should it become necessary and become possible to enforce family planning by fiat, he is hardly likely to be deterred by his democratic conscience.

It is possible that before these lines see the light, some definitive developments may have taken place with regard to the election of the next Congress president. But, whatever shape events may take, they are unlikely to improve the standing of the party or its leaders with the people. If the search for a successor to Mr. Kamaraj has been prolonged, it is not because Congress leaders are particularly interested in finding the right man for the job but because they have so much to do sorting out considerations relating to their respective personal interests. In Mrs. Gandhi's camp there is distaste naturally for any candidate who is likely to be an "independent" Congress president. There is equally keen distrust elsewhere of any name which raises the possibility of a "rubber stamp" president. All these factions, however, may lay claim to one virtue: they cannot be accused of placing the party before the country; every one of the president-makers is far too busy placing himself (or herself) before the party.

V.B.

Trade Winds

DEVALUATION OF POUND STERLING

MR MORARJI DESAI, Deputy Prime Minister and Minister for Finance, stated in Parliament on November 20 that the devaluation of the pound would not have "any substantial adverse effect on our exports". The extent of the devaluation is 14.3 per cent and at the new rate of exchange, the pound sterling is equivalent to Rs 18 instead of Rs 21 previously. The exchange rate of rupee in terms of gold or US dollars will remain unchanged at the level established on June 6, 1966.

Our imports from the United Kingdom have been around 10 per cent of the total, consisting mainly of capital goods, metals and chemicals. The effect of the devaluation of the pound will be to make these cheaper to us in terms of rupees and also in relation to imports from other countries. On the other hand, our exports to the United Kingdom in 1966-67 were about 17 per cent of our total exports. As a result of the change in the British exchange rate of pound sterling, some of our exports, according to Mr Desai, may face difficulties but he was of the view that the demand for other products exported by us may remain unaffected.

The United Kingdom has been an important source of external loans and our foreign debt in sterling is about 245 million pounds, which is more than 10 per cent of our total external debt payable in foreign exchange. The devaluation of the pound does not in any way affect the amount of our obligations in terms of sterling. However, the budgetary burden in terms of rupees of servicing the debt to the United Kingdom will diminish by 14.3 per cent. The aid we receive from the United Kingdom is linked to the supply of goods and services. The change in the British exchange rate will naturally reduce the rupee value of a given quantum of foreign aid, but it need not affect the purchasing power of that aid in terms of British goods and services. Mr Desai was of the view that new policies of the British government would lead to an improvement in the balance of payments of the United Kingdom which would improve its ability to provide development finance.

The reduction in the British exchange rate has lowered by 14.3 per cent the gold or dollar value of the sterling holdings of all foreign countries. India's sterling holdings i.e. the balances held by the Reserve Bank as well as the Government of India amount to about £ 34 million or approximately Rs 71 crores at the old rate of exchange. This consists of about one-sixth of our total reserves in gold and foreign exchange. While this component of our reserves has gone down in value in terms of gold, its value for meeting our payment obligations in the United Kingdom remains unimpaired.

12 OTHER CURRENCIES DEVALUED

Twelve other countries have devalued their currencies with the £ so far. The Irish £ was devalued to the same level as the British £—from \$2.80 to \$2.40. In Copenhagen, the Prime Minister of Denmark, Mr Jens Otto Krag, said the Danish krone would be devalued following the British devaluation but by not much. The krone now trades 6.97 to the \$. Israel devalued its pound from three to 3½ to the dollar. Against sterling the rate remains unchanged at 8.40 Israeli £. In Suva, the Fiji government announced that devaluation of the £ meant that in law the Fiji £ must be devalued in the same proportion. In Hong Kong, the Financial Secretary, Mr J. J. Cowperthwaite, said it was in Hong Kong's best interest to follow the new sterling rate and maintain the present exchange rate of 16 Hong Kong \$ to the £. The decision will also mean that the official rate of exchange between the Hong Kong \$ and the US \$ will now stand at approximately 6.67 HK to one US \$.

The Guyana dollar has been devalued to half the value of

the US \$. Spain has decided to devalue peseta by 16.6 per cent. The New Zealand dollar has been devalued by 19.4 per cent and now stands at 1.39 to the US dollar. Bermuda, Cyprus, Malta and Malawi have also devalued their currencies since the devaluation of sterling.

Financial circles in South Africa and Ceylon indicated that the two countries would also follow suit.

INDO-W. GERMAN COMMUNIQUE

A joint communique issued at the end of the talks between the Prime Minister, Mrs Indira Gandhi, and the West German Chancellor, Dr Kurt Georg Kiesinger, reviewed the pattern of Indo-West German trade and economic relations. The Prime Minister referred in particular to the persistent imbalance in the commercial exchanges between the two countries. In keeping with the desire in both countries to increase mutually beneficial commerce they agreed that such problems should be discussed between experts of the two countries. In this context, they recognized the importance of the second meeting of the UNCTAD to be held here early next year, and expressed the hope that this conference would lead to a liberalization and diversification of trade between developed and developing countries.

CONSORTIUM AID

The communique issued after the two-day meeting of the 10-nation consortium for aid to India held in Paris on November 13-14 said that for 1967-68 members had already committed or are now negotiating agreements to provide aid for project, food and non-project purposes; further commitments would be negotiated as soon as legislative appropriation procedures are completed in certain member-countries. Meanwhile, the Indian official delegation to the meeting is satisfied that the requirements of external assistance in 1968-69 will be covered adequately. It is expected that our request for a suitable re-scheduling of repayment obligations will be accepted by most countries. The sub-committee of the consortium which has been considering this issue for some time will come to a favourable conclusion shortly. The main achievement of the Indian delegation is that it has dispelled the pessimism of some aid-giving countries about the Indian economic outlook. Even some friendly countries had expressed concern over the absence of any marked improvement in our export earnings despite drastic steps like devaluation. The recession had caused some confusion outside. Members of the consortium are convinced about the soundness of the Indian economy and are generally satisfied with the government's measures to overcome the recession. The consortium appears to have recognized that Indian imports would increase with more rapid use of resources following the revival of the economy next year. While the precise contribution of the members will be finalized only at the next meeting in February, the overall non-project assistance will be more or less around the present level of \$ 900 million, excluding repayment facilities, it is expected. Because of under-utilization of non-project assistance, estimated at about 15 per cent, the impact of any cut in US aid may not be felt immediately. Assistance already in the pipeline will help maintain the flow of US aid in 1968-69 more or less at the same levels as in previous years.

BANK STATISTICS

The deposits and credit of the scheduled banks (including those of foreign offices of Indian scheduled banks) expanded by Rs 602.4 crores and Rs 363.6 crores respectively in 1966 as compared to Rs 334.9 crores and Rs 248.1 crores in 1965. This is disclosed in the "Statistical Tables Relating to Banks in India, 1966" issued by the Reserve Bank of India last week.



Door to Door 'Street Collection and Delivery' Service is available for parcels luggage and perishables at Delhi, New Delhi, Allahabad, Kanpur and Ludhiana.

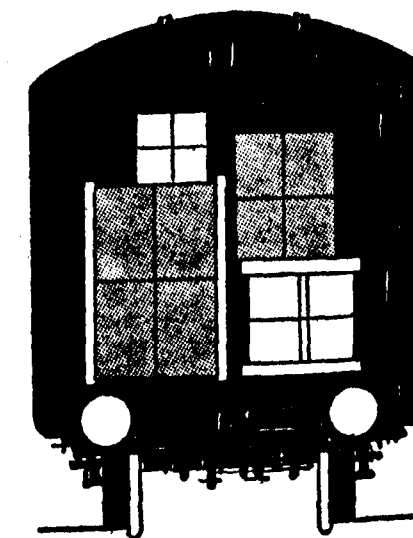
For parcels not initially booked for Street Delivery, the service is provided on an advance intimation from the consignee to our agents.

AT A SMALL SURCHARGE OVER THE USUAL FREIGHT THIS SERVICE CAN BE YOURS.

For further details, contact our City Booking Agents:

1. M/s. Ram Lal Jaggi & Sons,
Connaught Place, New Delhi. Phone: 47220
2. M/s. M. K. Sri Chand & Co.,
Sadar Bazar, Delhi. Phone: 226026
3. M/s. R. S. Narsingh Dass Chopra & Sons,
Chandni Chowk, Delhi. Phone: 225325
4. M/s. Madan Lal Jaggi & Sons,
Subzi Mandi, Delhi. Phone: 221645
222922
5. M/s. Radha Krishan Mahabir Prasad,
Chowk, Allahabad. Phone: 85093
6. M/s. Jagat Singh & Sons,
Mall Road, Kanpur. Phone: 34747
7. M/s. R. S. Narsingh Dass Chopra & Sons,
Chaura Bazar, Ludhiana.

Railway
At your
Door step



NORTHERN RAILWAY

YARTICO-8 67

INCAB

wins £1.1 million contract in Kuwait for ICMA Export Consortium

The Indian Cable Company Limited, quoting as leader of the Export Consortium of the Indian Cable Makers' Association and competing against world-wide tenders has won a contract of £1.1 million according to a message received from the Indian Embassy in Kuwait. This is the first time the Indian Cable Industry has successfully competed against the established and well-known manufacturers in this sophisticated field.

With the home demand unable to utilise even 40% of the installed capacity and

the spectre of deepening recession facing the industry, seven power cable manufacturers of the I.C.M.A. have formed an Export Consortium in an endeavour to (1) project the image of the Indian cable industry in the world market (2) earn foreign exchange and (3) fight recession at home.

INCAB—The Indian Cable Company Limited—as the promoter of the plan and the contracting party for the Consortium is proud to be associated with this export promotion enterprise.

OTHER MEMBERS OF THE CONSORTIUM

Asian Cables Corporation Ltd. Industrial Cables (I) Ltd.
Cable Corporation of India Ltd. Oriental Power Cables Ltd.
Fort Gloster Industries Ltd. Universal Cables Ltd.

INCAB
THE INDIAN CABLE COMPANY LIMITED
quality cablemakers—first and foremost

INC 115

Their paid-up capital and reserves rose from Rs 93.3 crores in 1965 to Rs 96.7 crores in 1966. Investments increased by Rs 171.2 crores as compared to a rise of Rs 81.4 crores in 1965. Their total earnings and expenses rose sharply over the year by Rs 54.5 crores and Rs 50.4 crores to Rs 297.0 crores and Rs 258.0 crores respectively. Profits before tax further improved by Rs 4.1 crores to Rs 39.1 crores. During 1966, the number of offices of commercial banks in the country increased by 465 (303 in 1965). While the State Bank of India and its subsidiaries accounted for about a third of the total increase in the number of offices, other Indian scheduled banks accounted for two-thirds of the increase. Nearly half of the year's increase in offices was at places with a population of less than 25,000. At the end of 1966, there was one office of a commercial bank in the country for a population of 76,000 as compared to 79,000 at the end of 1965. The declining trend in the number of non-scheduled commercial banks continued. The number of non-scheduled banks declined from 33 to 27 mainly as a result of the various mergers and transfers of assets and liabilities to other banks—mostly to scheduled commercial banks.

NO DEFICIT FINANCING SO FAR

The Deputy Prime Minister, Mr Morarji Desai, told the Lok Sabha last week that there had been no deficit financing during the first six months of the current financial year. It was, however, premature to indicate at this stage whether there would be any deficit financing during the coming months. Mr Desai said that indications were that the overall expenditure during this period might not show any significant variation, compared with the budget estimates, except in the matter of provision for dearness allowance and provision for public sector undertakings on account of shortfall in internal resources. But there had been a shortfall in customs duty because of lesser imports. The shortfall under excise duty was mainly in respect of sugar due to lower production. There was no significant

variation in income-tax collection. Mr Desai said India's external public debt stood at Rs 4,005.05 crores as on July 31. He stated that repayment of principal and payment of interest and service charges in respect of external public debt were a first charge on export earnings. Export earnings and payments in respect of external public debt during the last two years were as under (in Rs. crores).

	Export earnings	Payments under foreign debt
1965-66	1,275.1	216.5
1966-67	1,118.3	240.8

During the last five years, the outstanding public debt, the payment of principal and service charges were as under (in Rs. crores):

	Outstanding external public debt at the end of the year	Payments of principal, interest and service charges during the year	Percentage of 2 to 1
	(1)	(2)	(3)
1962-63	1,798.6	148.3	8.2
1963-64	2,254.0	152.3	6.7
1964-65	2,789.8	216.5	7.8
1965-66	3,374.1	216.5	6.4
1966-67	3,819.6	240.8	6.3

CONFERENCE OF TAX EXECUTIVES

Mr K. C. Pant, union Minister of Revenue and Expenditure, will inaugurate the second all-India conference of tax executives being organised in New Delhi on November 27-28 by the

AN EASTERN ECONOMIST PUBLICATION

INDIA'S PROGRESS SINCE INDEPENDENCE

A STATISTICAL BIRD'S-EYE VIEW

This effort at the statistical presentation of India's progress since Independence in the main directions of social and economic evolution was first undertaken in April, 1963. The present publication, which is the third edition, has benefited from the experience gained of readers' reactions to the earlier editions. Although an attempt has been made naturally not only to bring the statistics up-to-date but also to revise the contents in order to make them more interesting and informative, we have found it profitable to stick to the original idea of maintaining a combination of comprehensiveness in outline and selectivity in detail. This volume is not by any means intended to be even a summary of the nation's progress in the last 20 years. Its aim simply is to indicate broad trends and developments in a statistical form. The book is priced Rs. 5 per copy.

Please fill in properly the coupon below and send it to us for your copy/copies.

Please cut here

The Manager
THE EASTERN ECONOMIST LIMITED
United Commercial Bank Building
Parliament Street
New Delhi.

Dear Sir,

Kindly despatch a copy of your brochure "INDIA'S PROGRESS SINCE INDEPENDENCE" at my following address.
I am sending you Rs. 6.50/\$1.00/£0-7-0 (inclusive of packing and postage) by cheque/M.O./postal order.

Yours faithfully,

Address.....

Please cut here

Federation of Indian Chambers of Commerce and Industry. The first such conference was held last year and was attended by over 250 senior tax executives from companies all over the country, including those from the public sector undertakings. The conference will discuss the following subjects on which a number of discussion papers have been contributed by the participants: concept of business income for tax purposes; incidence of tax and tax evasion; and tax problems relating to foreign collaboration agreements.

I.F.C.T.I. MEET CONCLUDES

The International Federation of Cotton and Allied Textile Industries (IFCTI), which concluded its six-day conference in New Delhi last week has recommended that exporting countries should not expand their capacity beyond the requirements of domestic markets as the world market's potential for absorbing additional exports is limited. The conference, which was attended by over 200 delegates representing 15 countries and several international organisations, was of the view that any expansion of capacity would lead to disruption of the world market in textiles. A spokesman of the federation said that IFCTI was only a consultative body and it had no powers to recommend on trade relations. A spokesman of the Indian Cotton Mills' Federation, which hosted the conference, said the recommendations of the conference would not affect expansion of Indian cotton textiles industries since the demand for textiles was bound to rise in view of the population growth.

STUDY TEAM FOR FERTILISER CORPORATIONS

The terms of reference of the study team, set up by the Petroleum and Chemicals Ministry, to study the organisation and structure of the public sector corporations in the fertiliser

industry, are as follows: (i) Should there be one, two, or possibly several public sector corporations? What should be the optimum size of a corporation? (ii) Should the system be aimed at developing the corporations along the lines of European government corporations, such as ONIA and Dutch state mines (which are quite successful and appear to have a high degree of autonomy), of TVA, of private industry, or through some combination of these? What should be the top managerial set-up for the recommended form of organisation? (iii) Are any changes necessary in the powers enjoyed by the public sector corporations? (iv) What changes, if any, are necessary in the organisational features of the present corporations for dealing with future plant? (v) What should be the relationship of the designing and engineering groups with production units? (vi) Should the two present design and engineering groups be combined into one? (vii) Is the separate engineering by FCI and FACT of various units at one project a feasible arrangement? (viii) Do the existing operation control systems require any change for maximising production in present and future plants? (ix) What further steps can be taken to develop design, engineering, fabrication and construction competence in India and make it competitive with or replace foreign sources? (x) What procedures or arrangements should be followed for expediting construction and avoiding delays? (xi) On the basis of the general future organisation recommended by the team, what is the best arrangement for product marketing? The study team will submit its report in January, 1968.

In the public sector, there are, at present, two corporations whose main activity is production of fertilisers and development of fertiliser technology. In view of the important role these corporations have been playing and are required to play in the future, it has been considered necessary to study their organisation, structure, etc., and determine the measures to be adopted

EASTERN ECONOMIST

Premier Financial & Economic Weekly

PUBLISHED EVERY FRIDAY

RATES OF SUBSCRIPTION

	Inland	Foreign
Yearly	Rs 70.00	\$ 17.00 or £6-0-0

For advertisement rates and other details, please contact our offices in

BOMBAY — CALCUTTA — MADRAS — HYDERABAD — TRIVANDRUM — LONDON

or

THE EASTERN ECONOMIST LIMITED

Uco. Bank Building, Parliament Street, New Delhi-1.

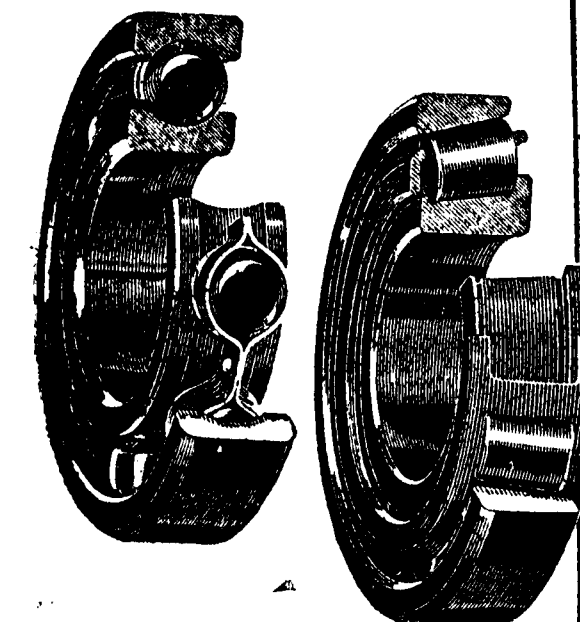
Gram: Research

Phones: 384856
381899

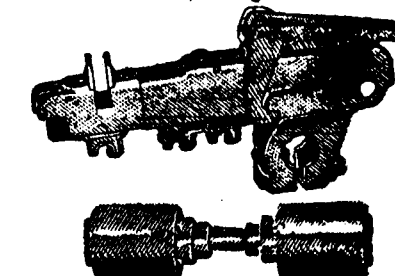
SKF SPECIALITIES IN INDIA

Shown here are some of the SKF specialities now being manufactured in our new factory at Chinchwad, Poona. These products are a reflection of all the technical skills and know-how, which have made the name SKF world famous. A team of qualified engineers are at your disposal to assist you on any bearing problems.

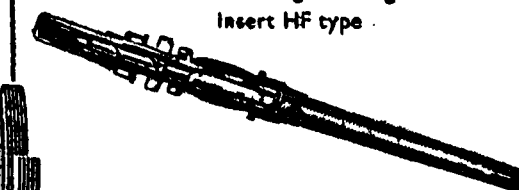
SKF BALL & ROLLER BEARINGS



SKF Pendulum weighting arms with top rollers for spinning frames



SKF Roller bearing centring sleeve Insert HF type



SKF jockey pulleys

Now manufactured in India by: SKF-POONA

ASSOCIATED BEARING COMPANY LIMITED

Sole Selling Agents: **THE SKF BALL BEARING CO. PRIVATE LTD.**
Bombay • Calcutta • New Delhi • Madras

SKF 11. 48

9 eventful years

—a picture of achievements... and shortfalls

Rs. 1125 crores of foreign exchange saved

This is the value of the much needed steel which Hindustan Steel produced in the country.

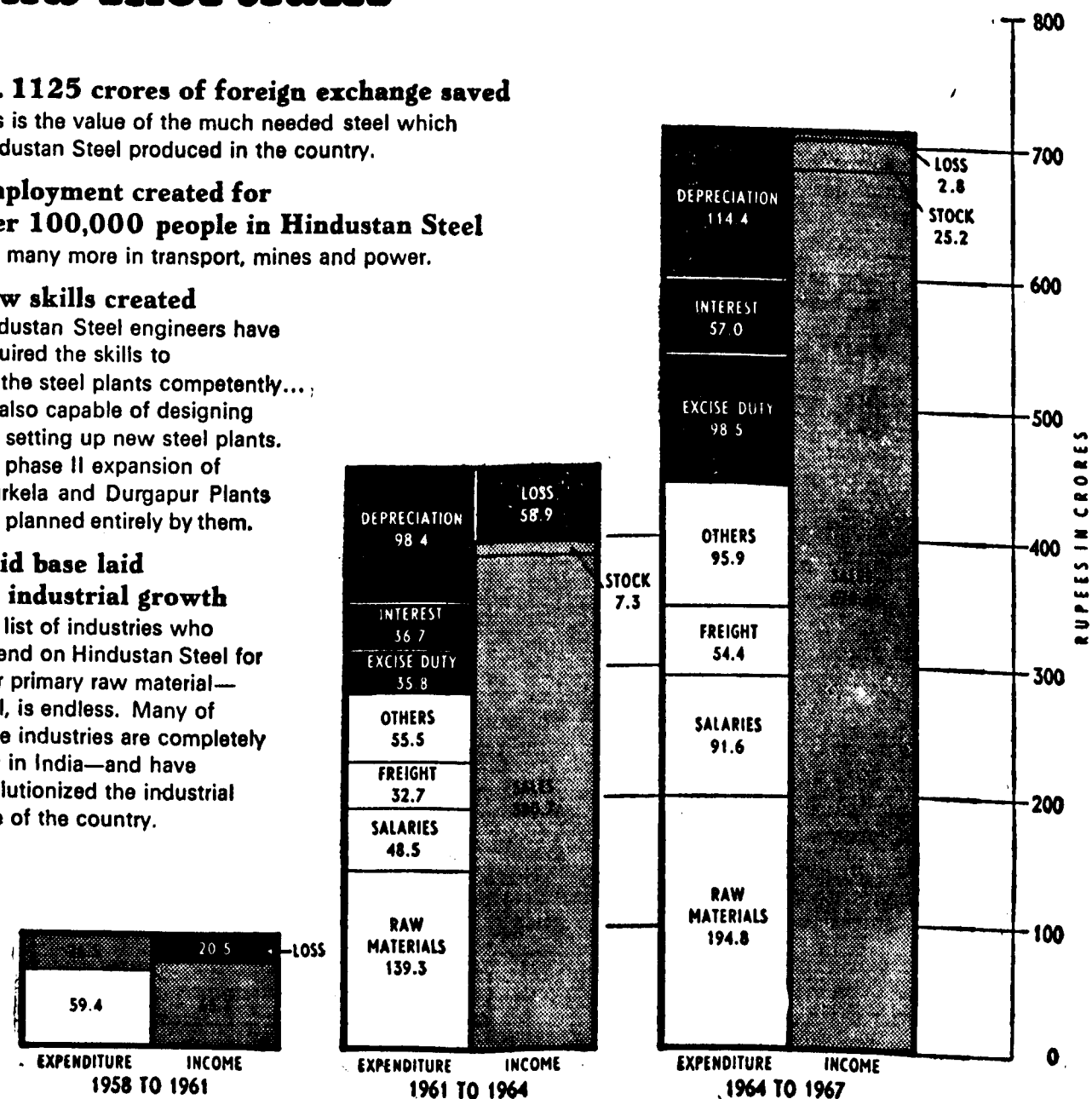
Employment created for over 100,000 people in Hindustan Steel and many more in transport, mines and power.

New skills created

Hindustan Steel engineers have acquired the skills to run the steel plants competently... are also capable of designing and setting up new steel plants. The phase II expansion of Rourkela and Durgapur Plants was planned entirely by them.

Solid base laid for industrial growth

The list of industries who depend on Hindustan Steel for their primary raw material—steel, is endless. Many of these industries are completely new in India—and have revolutionized the industrial base of the country.



The cumulative loss is still with us, particularly because of slackening demand. But with industrial growth and rising exports, it is only a matter of time before profits replace losses.

HINDUSTAN STEEL

part of the grand design for self-reliance and progress



for enabling them to meet effectively the problems and challenges that the rapidly rising fertiliser needs of the country are likely to throw up. For this purpose, the services of four experts have been secured from the TVA, USA, under the Indo-US technical co-operation programme.

MINISTERIAL CHANGES

The following changes have been effected in the council of ministers at the centre: Mr Satya Narayan Sinha, Minister without Portfolio, has assumed the office of Minister of Health, Family Planning and Urban Development; Dr S. Chandrasekhar relinquished the office of Minister of Health and Family Planning and has assumed the office of Minister of State in the Ministry of Health, Family Planning and Urban Development; Mr Lalit Narayan Mishra relinquished the office of Minister of State in the Ministry of Labour, Employment and Rehabilitation, and has assumed the office of Minister of State (Defence Production) in the Ministry of Defence; Mr Bali Ram Bhagat relinquished the office of Minister of State in the Ministry of Defence and has assumed the office of Minister of State in the Ministry of External Affairs; Mr Roshanlal Chaturvedi relinquished the office of Deputy Minister in the Department of Parliamentary Affairs, and has assumed the office of Deputy Minister in the Ministry of Railways; Mr D. R. Chavan relinquished the office of Deputy Minister in the Ministry of Law, and has assumed the office of Deputy Minister in the Ministry of Labour, Employment and Rehabilitation; Mr S. C. Jamir relinquished the office of Deputy Minister in the Ministry of Railways, and has assumed the office of Deputy Minister in the Ministry of Labour, Employment and Rehabilitation; Mr J. B. Muthyal Rao relinquished the office of Deputy Minister in the Department of Parliamentary Affairs, and has assumed the office of Deputy Minister in the Department of Social Welfare; and Mr B. S. Murthy relinquished the office of Deputy Minister in the Ministry of Health and Family Planning and has assumed the office of Deputy Minister in the Ministry of Health, Family Planning and Urban Development.

The following four new appointments have also been made: Mr Jagannath Pahadia, Deputy Minister in the Ministry of Finance; Mr Sidheshwar Prasad, Deputy Minister in the Ministry of Irrigation and Power; Chowdhary Ram Sewak, Deputy Minister in the Ministry of Steel, Mines and Metals; and Mr M. R. Krishna, Deputy Minister in the Ministry of Defence.

CO-OPERATIVE INDUSTRIAL ESTATES

The Life Insurance Corporation of India has agreed to set aside Rs 50 lakhs every year for the establishment of co-operative industrial estates. The state governments have been called upon to take advantage of this allocation. This was disclosed at a meeting held in New Delhi recently of the official level committee of the Small-Scale Industries Board. The committee recommended that the question of imports by small industries either direct or through the Minerals and Metals Trading Corporation or the State Trading Corporation should be re-examined. It also recommended that the existing formula of allocating raw materials at the rate of 20 per cent of the cost of installed machinery to the new non-priority industries should be reviewed and rationalised. This was necessary because many of the industries, particularly those of industrial groups, could not take advantage of this. Another recommendation was that the disparity in the fees charged by National Test House, Calcutta, and the National Physical Laboratory, New Delhi, should be examined.

I.T.I. PRODUCTION DOUBLES

The state-owned Indian Telephone Industries Ltd, Bangalore, has nearly doubled its output over the past four years with a record turnover of Rs 16 crores during 1966-67, according to its 17th annual report released last week. The exports of the company during the year amounted to Rs 81.17 lakhs as against Rs 9.37 lakhs in the previous year. Major orders executed were for Brazil, Belgium, Ceylon, New Zealand, Nepal and the UK.

The other countries to which equipment was exported were Bhutan, Ireland, Kuwait, Malaysia, Nigeria, Singapore, Somali Republic, South Vietnam, Thailand and the UAR. The items exported included telephones exchanges, transmission equipment, loading coils, bank multiples, switches and condensers. An important contribution to export was made by the automatic exchange division which supplied Rs 68 lakhs worth of equipment to Brazil and European countries alone. The company continued its efforts to achieve import substitution. During the year, a further sum of Rs 41.83 lakhs recurring in foreign exchange was saved bringing the total annual foreign exchange savings to Rs 97 lakhs during the years 1965-66 and 1966-67. The research department of the company developed a number of new circuits and products. Notable among these are radio telephone terminals, broadcast carrier equipment, high frequency three-channel openwire system, 24-volt ringers and transistorised power line carrier equipment. On the telephone side, a field telephone and a wall telephone have been developed along with other items. The turnover of the company during the year was Rs 1,601.53 lakhs as compared with Rs 1,252.59 lakhs in the previous year, registering an increase of about 28 per cent. The gross profit was Rs 259.47 lakhs, that is, nearly Rs 60 lakhs more than the previous year.

ROAD TRANSPORT WAGE BOARD

The Central Wage Board for Road Transport Industry has extended the last date for submission of replies to the questionnaire it had issued to all concerned parties from October 31 to December 31, 1967, in view of a large number of requests received for extension of time.

ELECTRICITY UNDERTAKINGS WAGE BOARD

The Central Wage Board for Electricity Undertakings has extended the last date for submission of replies to the questionnaire it had issued to all concerned parties from September 30 to November 30, 1967, in view of a large number of requests received for extension of time.

NEPAL TO NATIONALISE LIFE INSURANCE

Life insurance in Nepal will be nationalised from December 16, and from that date all business will be conducted by the Nepal Insurance Corporation. A five-member committee headed by Mr Bhekh Bahadur Thapa, Nepalese Finance Secretary, has been constituted to make all arrangements in this connection. So far the Life Insurance Corporation of India and other Indian insurance companies used to look after the insurance needs of Nepal.

INDO-IRAN TRADE PACT

The trade agreement initially signed in March, 1964, between India and Iran has been extended for a further period of three years ending March 10, 1967 under a protocol signed between the two countries in Teheran last week. Expansion and diversification of trade between the two countries is envisaged. Detailed trade arrangements have also been agreed upon for a period of one year with effect from September 11, 1967 and will be reviewed after six months. The two delegations have agreed that in the context of industrial and economic development proceeding apace in the two countries, considerable increase in the volume of exchange of goods which each country needs from the other was likely and desirable.

NATIONAL DEFENCE FUND

Contributions to the National Defence Fund up to the end of October amounted to Rs 80.53 crores. Of this, Rs 19.90 crores were contributed from September 1, 1965, and Rs 1.16 crores represent the value of gold and silver which has been taken to government stock and credited to the National Defence Fund. The contribution in the form of gold ornaments and jewellery up to the end of October, 1967, amounted to 24.74 lakh grammes, while that in the form of silver articles and jewellery during the same period amounted to 15.65 lakh grammes.

Company Affairs

BROOKE BOND

BROOKE BOND India Ltd has proposed to enter the capital market on December 4, 1967, with an offer of 1,675,000 equity shares of Rs 10 each for cash at a premium of Rs 3 a share. Of this, the directors have reserved 167,500 shares for subscription by employees of the company. The entire issue has been underwritten. And shares not taken up by the employees will be available for meeting applications from the public. The remaining 1,507,500 shares will be opened for public subscription. The growth of the company is reflected in the sales turnover, which stood at Rs 53.22 crores in 1963 and rose to Rs 71.78 crores in 1967 with a corresponding increase in net profits (after tax and depreciation) from Rs 0.88 crores to Rs 1.43 crores over the same period. The past dividend record of the company has been most satisfactory, steadily rising from 7.50 per cent in 1963 to 15 per cent in 1967, calculated on the paid-up capital as on June 30, 1967. In the field of exports, too, the company's progress has been good. Export sales, which stood at Rs 7 crores in 1958, have risen to over Rs 15 crores. The subscription list will close on December 14, 1967, or earlier at the discretion of the board of directors but not before December 8, 1967.

INDIAN EXPLOSIVES

The issue of equity capital of Rs 5.03 crores by Indian Explosives Ltd to the public and the existing shareholders, which opened on November 6 has been oversubscribed. The subscription list was closed on November 13. This issue was made to provide a part of the finance for the fertiliser project at Kanpur. The cost of the project is estimated at Rs 62 crores and is being constructed in collaboration with the ICI of Britain.

ANDHRA FOUNDRY

Andhra Foundry and Machine Co. Ltd, Hyderabad, entered the capital market with a public issue of 1,000 eight per cent convertible debentures of Rs 1,000 each. Out of the present issue, the managing agents M/s Harischandra Prasad and Associates, have agreed to subscribe for 250 debentures and the remaining 750 debentures have been offered for public subscription. The issue was open till November 22, and was underwritten fully. The company completed the spun pipe project and commissioned it in May 1967. Additional funds are required to meet the outstanding financial commitments and working capital requirements. The conversion scheme will give debenture holders 100 equity shares of Rs 10 each for every debenture of Rs 1,000.

JYOTI SWITCHGEARS

Jyoti Switchgears Ltd entered the capital market on November 16, with an offer of equity shares worth Rs 12.50 lakhs divided into 12,500 shares of Rs 100 each to the public. The subscription list will close on December 2 or earlier but not before November 21, 1967. The factory of the company will be located at the Village Mogar in Anand taluka, about 17 miles from Baroda. It proposes to manufacture switchgears, switch boards, transformers, electric motors, generators, turbines and other allied products. The authorised capital of the company is Rs 50 lakhs divided into 25,000 equity shares of Rs 100 each and 25,000 unclassified shares of Rs 100 each. The present issue of the company is of Rs 14.77 lakhs consisting of equity shares. Of this, 2,270 equity shares will be allotted to the directors and their friends and remaining 12,500 will be offered to public at par.

PILSNER BREWERIES INDIA

Pilsner Breweries India Ltd, a new company promoted by Chowgule and Co. Private Ltd, Goa, proposes to issue shortly capital of Rs 39.20 lakhs in equity shares of Rs 10 each for

public subscription. The entire public issue is expected to be underwritten. The company has an authorised capital of Rs 2 crores in equity shares of Rs 10 each and an issued capital of Rs 80 lakhs. Of this, capital of Rs 40.80 lakhs has been subscribed for and the balance will be offered for public subscription. The company proposes to set up a brewery plant near Margo (Goa) for manufacturing beer with an annual capacity of 25,000 hectolitres. The plant to be supplied by Technoexport, Praha, Czechoslovakia, consists of a single steam heated brewing house with decoction brewing, semi-continuous fermentation and lagering technique, which can produce beer equal in quality to the most popular continental and Pilsner types. It has a capacity of 100 hectolitres of beer per brew. It also contains facility for production of soft drinks of 50,000 hectolitres annually using essential services like water, steam and refrigeration. There is also provision for collection, purification and liquidification of carbon di-oxide gas, generated from fermentation of 75,000 kg. per annum. It also contains ice-making unit with annual capacity of 400,000 kg. per year. It has been designed to produce double the quantity of beer by spending additional Rs 30 lakhs on capital expenditure. The capital outlay on the project is estimated at Rs 142 lakhs, which will be met by share capital (Rs 80 lakhs) loan from the Bank of Baroda Ltd (Rs 50 lakhs) and bank borrowings for working capital (Rs 12 lakhs).

DHARAMSI MORARJI CHEMICAL

Dharamsi Morarji Chemical Co. Ltd has announced a bonus issue in the proportion of one share for every five shares held. The new bonus shares will rank for dividend from January 1968. The company will capitalize Rs 12.13 lakhs being part of the general reserve No. 1 and will issue bonus shares. The company has also decided to issue fractional certificates to those holding shares less than multiples of 5. The board of the company has also decided to convert "Morarji Pandit" a partnership firm, into a public limited company by purchasing 66 2/3 per cent of the total shares of that company.

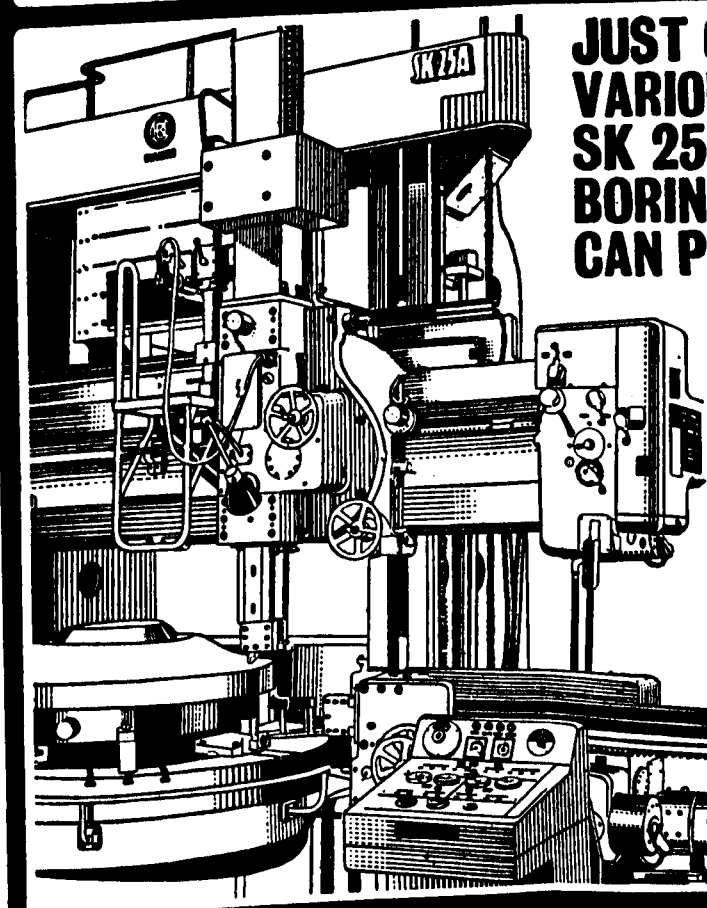
SHREE GOPAL INDUSTRIES

Shree Gopal Industries Ltd, a subsidiary of the Shreeniwas Cotton Mills Ltd, has earned a higher gross profit of Rs 14.26 lakhs in the year ended June 30, 1967, against Rs 11.59 lakhs in the previous year. Sales shot up during the year from Rs 88.60 lakhs to Rs 95.28 lakhs. An equity dividend of Rs 8 per share has been maintained. The profitability would have been higher but for the 60 per cent power cut which kept nearly 5,400 spindles idle till March 1967. The company could work to the full capacity only in the last quarter of the year after the new imported generating set was installed. The power cut has been reduced from 60 per cent to 35 per cent and is expected to be restored fully in the near future. The following are the allocations: depreciation Rs 9.06 lakhs, prior charges Rs 1.21 lakhs, taxation Rs 2.10 lakhs and general reserve Rs 50,000.

COROMANDEL FERTILISERS

Coromandel Fertilisers Ltd has announced a rights issue of equity shares in the ratio of 16 shares, for every 125 shares held. The issue will yield Rs 1 crore. The proceeds of the issue will be utilised to meet the increased cost of the company arising from devaluation and raw material imports. The company has envisaged three-fold increase in its production capacity. The expansion programme to be completed in four years is expected to cost Rs 35 crores, two-thirds of the cost being in foreign exchange. It has received a loan of Rs 11 crores comprising Rs 7 crores from IDBI and the rest from the AID. The urea plant of the company with an installed capacity of 400 tons of urea per day will go into production shortly. Part of the production will be marketed for direct use in the fields,

HIGH-SPEED ROUGH AND FINISH TURNING OF WORK UP TO 10 TONS WEIGHT, 1300 MM. HEIGHT AND 2600 MM. DIAMETER, IN SINGLE OR SERIES PRODUCTION...



JUST ONE OF THE VARIOUS JOBS THE SK 25A VERTICAL BORING MILL CAN PERFORM!



Strojimport
PRAHA-CZECHOSLOVAKIA

The SK 25A Double-column Vertical Boring & Turning Mill can also do other kinds of jobs: copying (with the built-in copying attachment)...thread-cutting...taper turning. Its advanced design permits measurements by the Selsyn method to be taken during operation. The high output of the electric motor (80 kw) helps maintain a constant cutting speed through a Ward-Leonard drive. Remote control from independent console and conveniently-located pendant panels simplifies operation. Other features: • Rigid, ribbed table mounted on special anti-friction bearings. • Infinitely variable table speeds from 1.18—117 r.p.m. • Permanent effective torque —638000 kg./cm. • Selection of 14 cutting feeds from 0.12—11.2 mm/rev. • Cutting speed of 60 m/min. possible from 164 mm. diameter upwards.

ALSO AVAILABLE: MODELS SK40A, SK50A AND SK125

Please contact:

BATLIBOI & COMPANY
PRIVATE
LTD.

Regd. Office: Forbes Street, Fort, Bombay 1.
Branches • Associates • Agencies ALL OVER INDIA



participants in planned progress

1297 A

To Plug The Drain Of Foreign Exchange

use

RAYON - GRADE DISSOLVING PULP

based on Kerala Bamboo

produced and marketed

by

THE GWALIOR RAYON SILK MFG. (WVG.) CO., LTD.,
(Pulp Division)

Birlakootam—Kozhikode

Gram: 'WOODPULP', Calicut.

Phone: 3971-74

Mg. Agts: Birla (Gwalior) Pte Ltd, Calcutta

Regd. Office: Birlagram, Nagda (M.P.)

while the major part will be fed into the Coromandel complex fertiliser plant for producing ammonium phosphate 28:28:0, said to be the most concentrated form of fertiliser in India. Coromandel's fertiliser complex at Visakhapatnam will be inaugurated by the Deputy Prime Minister, Mr Morarji Desai, on December 10.

MYSORE KIRLOSKAR

Mysore Kirloskar Ltd proposes to reduce its equity dividend for the year ended June 30, 1967, to six per cent from ten per cent for the previous year despite a rise in its gross profit from Rs 81.70 lakhs to Rs 100.06 lakhs. The company's improved performance is accompanied by an increase in its sales from Rs 3.90 crores to Rs 4.94 crores. The reduced dividend is attributed to the decision of the management to conserve the company's resources in view of the present conditions in the machine tool industry. The company has set apart Rs 40.58 lakhs for depreciation, Rs 25.50 lakhs for taxation, Rs 6.05 lakhs for development rebate reserve and Rs 5.66 lakhs for managing agents' remuneration. Out of the higher net profit of Rs 22.27 lakhs against Rs 12.21 lakhs, a sum of Rs 1.27 lakhs has been provided for contingency reserve and the proposed dividend absorbs Rs 8.95 lakhs. A sum of Rs 12.29 lakhs has been transferred to general reserve.

KIRLOSKAR ELECTRIC

Kirloskar Electric Co. Ltd. proposes to maintain an equity dividend of 12½ per cent for the year ended June 30, 1967, on its increased capital. The company has produced a lower gross profit of Rs 157.43 lakhs against Rs 167.83 lakhs for the previous year in spite of an increase in net sales from Rs 9.08 crores to Rs 10.65 crores. Out of the profit, the company has provided Rs 29.97 lakhs for depreciation, Rs 40 lakhs for taxation, Rs 34.84 lakhs for development rebate reserve and Rs 11.01 lakhs for managing agents' remuneration, leaving a smaller net profit of Rs 41.61 lakhs against Rs 52.23 lakhs. The net profit has been utilised to provide Rs 10 lakhs for general reserve, Rs 8 lakhs for loan redemption reserve, Rs 2 lakhs for capital redemption reserve, Rs 2 lakhs for dividend equalisation reserve and Rs 2.45 lakhs for special reserve. No provision has been made for the reserve for rehabilitation and modernisation against Rs 6 lakhs. The proposed equity and preference dividends claim Rs 17.18 lakhs against Rs 12.76 lakhs.

INCHECK TYRES

The preliminary working results of Incheck Tyres Ltd for the year ended June 30, 1967, show a profit before depreciation at Rs 8.84 lakhs against Rs 4.30 lakhs last year. As the depreciation provision is raised to Rs 16.75 lakhs from Rs 12.86 lakhs, there is a net loss of Rs 7.91 lakhs as against a net loss of Rs 8.56 lakhs for the preceding year. In the preceding year Rs 72,055 was provided for other reserves. The dividend is skipped again.

AUTOMOBILE PRODUCTS

Automobile Products of India Ltd has recorded good results for the year ended June 30, 1967, with a higher gross profit of Rs 53.30 lakhs against Rs 24.20 lakhs for the previous year. There was an increase in its sales to Rs 6.37 crores from Rs 4.67 crores. Its earnings would have been still higher but for a steep rise in its wage bill and the cost of raw materials and components. With depreciation claiming Rs 25.06 lakhs against the company's pre-tax profit amounts to Rs 28.24 lakhs against Rs 2.36 lakhs. The development rebate reserve absorbs Rs 9.40 lakhs and taxation Rs 6 lakhs. This leaves a net profit of Rs 12.84 lakhs against Rs 36,000. After adjustments for expenses amounting to Rs 2.03 lakhs in respect of the previous years, the disposable profit amounts to Rs 10.81 lakhs. The proposed equity and preference dividends will claim Rs 8.54

lakhs. The balance of Rs 2.28 lakhs has been adjusted against a loss of Rs 21.08 lakhs brought in, leaving a deficit of Rs 18.80 lakhs.

PREMIER AUTOMOBILES

The Premier Automobiles Ltd which has skipped equity dividend for the year ended June 30, 1967, against six per cent for the previous year, has reported a set-back in its working. The company's gross profit for the year has dropped sharply to Rs 49 lakhs from Rs 192 lakhs for the previous year with its sales declining to Rs 26.25 crores from Rs 28.51 crores. Out of the profit, a sum of Rs 48 lakhs has been set off against the account relating to the previous years, leaving a surplus of Rs 1.22 lakhs. The company has been unable to provide for depreciation which had claimed Rs 130 lakhs in the previous year. No provision has been made for taxation as it does not expect any tax liability for the year. The company has attributed its setback to a sharp fall in the sales of commercial vehicles because of devaluation. On the other hand, it was faced with a continuous rise in its wage bill. An effort was made by it to retrieve the situation by raising the production of Fiat cars from 5,522 units in 1965-66 to 8,897 during the year but that could not completely neutralise the adverse effect of the fall in the sales of commercial vehicles.

INDIAN DETONATORS

After providing Rs 11.32 lakhs for depreciation and Rs 24 lakhs for taxation, the Indian Detonators Ltd has shown a profit of Rs 24.70 lakhs for the year ended June 30, 1967. The directors have maintained an equity dividend of Rs 10 per share. After transferring Rs 13.90 lakhs to general reserve, a balance of Rs 787 has been carried forward. Production of electric detonators, ordinary detonators and detonating fuse was satisfactory during the year. The scheme of amalgamation of Sapeic India Ltd with Indian Detonators has been approved and will be implemented by the issue of 5,000 equity shares to the shareholders of Sapeic India Ltd as soon as the approval of the Controller of Capital Issues is received. Simultaneously, M/s Atlas Chemical Industries Inc., will also have to be allotted the same number of shares for cash at par so that their equity holding is not less than 50 per cent of the total equity. The company has been trying to build an export market with the help of Atlas Chemical. Sales during the year rose from Rs 2.17 crores to Rs 2.36 crores.

SYLVANIA AND LAXMAN

Sylvania and Laxman Ltd, an Indo-American project in Delhi with a capital outlay of Rs 2.56 crores, was inaugurated by the Deputy Prime Minister, Mr Morarji Desai, on November 19. The company's chairman, Mr Laxman S. Agarwal, stated that the company's total capital outlay represented 18 per cent of the total investment in lighting industry in India. The present paid-up capital was Rs 1 crore.

MADRAS RUBBER FACTORY

Madras Rubber Factory Ltd has entered the export market with a contract for the supply of custom-made tyres worth Rs 20 lakhs to America. These tyres are used in ornamental cars which speed at more than 100 miles an hour, and each tyre costs nearly Rs 500. The Managing Director of the company stated recently that boat trailer tyres would also be exported for which negotiations were in progress. The moulds and equipment for the manufacture of these tyres were loaned to Madras Rubber Factory by Mansfield Tyre & Rubber Co. free of cost. At a ceremony held recently the Madras Chief Minister, Mr Annadurai, handed over a consignment of these tyres to Mr Franklin, American Consul-General in Madras.

UNIT TRUST SALE PRICE

The Unit Trust of India has announced that the sale price of its units has been raised by 5 paise to Rs 10.25 per unit with

effect from November 15, 1967. The repurchase price is, however, unchanged at Rs 10.

Unit Trust of India has effected record sales of its units during the first quarter of the current year. It sold units of the face value of Rs 10.78 crores during July-September 1967. These sales exceed the total sales of Rs 9.24 crores made during the year 1966-67. During the corresponding quarter of last year, the trust had sold units of the face value of Rs 6.22 crores. The trust repurchased units of the face value of Rs 58.39 lakhs during the first quarter of the current year, against Rs 1.49 crores in the corresponding period of 1966 and Rs 1.99 crores during the whole of 1966-67. The net accretion of funds to the trust during July-September, 1967, amounted to Rs 10.20 crores, against Rs 4.73 crores in the corresponding quarter of 1966 and Rs 7.25 crores for the year 1966-67. With an addition of over 38,000 new unit holders during the quarter under review, the total number of unit holders registered with the trust at the end of September, 1967, was 204,872.

CAPITAL AND BONUS ISSUES

Consent has been accorded to nine companies to raise capital amounting to more than Rs 5.49 crores. Five of them are to issue bonus shares exceeding Rs 65 lakhs. The amount of bonus shares ranges between Rs 42,000 and Rs 29 lakhs. Consents are valid for 12 months.

Gokak Mills Ltd, Bombay, has been accorded consent to capitalise Rs 29,28,600 out of general reserve and issue fully-paid equity shares of Rs 100 each as bonus shares in the ratio of one for every three equity shares held.

Acme Mfg. Co. Ltd, Bombay, is allowed to capitalise Rs 21 lakhs out of general reserve and issue fully-paid 'c' equity shares of Rs 10 each as bonus shares.

Stanes Motors (South India) Ltd, Coimbatore, has been given consent to capitalise Rs 13,82,920 out of free reserve and issue fully-paid equity shares of Rs 10 each as bonus shares in the ratio of two for one held.

Agencia General Private Ltd, Vasco-da-Gama (Goa), is permitted to capitalise Rs 80,000 out of free reserve and issue fully-paid equity shares of Rs 25 each as bonus shares for every one equity share held.

Rajasthan Small Industries Corporation Ltd, Jaipur, has been accorded consent to capitalise Rs 42,000 out of free reserve and issue fully-paid equity shares of Rs 100 each as bonus shares.

Mafatlal Fine Spinning and Mfg. Ltd, Bombay, is permitted to issue 7.75 per cent, debentures of Rs 3 crores, the proceeds of which will be utilised for the replenishment of cash resources, for financing projects in hand and working capital. Of these, debentures of Rs 1 crore will be issued as collateral security in favour of Mafatlal Gagalbhai & Co., Pvt. Ltd. and 20,000 debentures of Rs 1,000 each, for cash at par, offered to the public for subscription.

Porritts & Spencer (Asia) Ltd, Calcutta, (under formation) has been granted consent to issue equity shares of a value of Rs 1 crore at par, the proceeds of which will be utilised for establishing a new undertaking for the manufacture of paper makers' wet felts, dry felts, asbestos cement felts and other similar products. Of these equity shares, Porritts & Spencer, UK, will be allotted shares of Rs 60 lakhs, Rs 10 lakhs against technical know-how and Rs 50 lakhs for the supply of capital equipment. The remaining shares of Rs 40 lakhs will be offered to the public for subscription.

Ahmedabad New Cotton Mills Ltd, Ahmedabad, is permitted to issue Rs 50 lakhs in 5,000 debentures of Rs 1,000 each for cash at par, carrying an interest of 7.75 per cent, per annum. The proceeds will be utilised for modernisation and expansion of the undertaking.

D. Waldies & Co. (Lead Oxides) Ltd, Calcutta, is allowed to issue equity shares of a value of Rs 33,86,200 to the shareholders of Waldies Zinc Pigments Ltd, Waldies Industries Ltd, and Bangalore White Lead Syndicate Ltd, all of Calcutta, on the amalgamation of the latter companies with D. Waldie & Co., as approved by the Calcutta High Court.

**His cattle
are
doing well
so are his savings
in the State Bank!**

His is a happy life. He is content because his future is secure. Because he has savings growing steadily in the State Bank. Savings he can always rely on.

State Bank for Service



S. 214

BOOKS BRIEFLY

For Better Management

Managerial Economics: Norman F. Dufty; Asia Publishing House; 1966; Pp. 237; Price Rs 24.

Executive Decision Making: Rustom S. Davar; Published by Progressive Corporation Private Ltd; 1966; Pp. 319; Price Rs 24.75.

Work Study For Management: Krish Pennathur; Published by Popams, New Delhi; Second Edition; 1967; Pp. 204; Price Rs 25.

Reviewed by S. S. M. DESAI

Dr Norman F. Dufty, an experienced businessman and an academician, is already known to Indian readers through his 'Industrial Relations in India' published in 1964.

The organized course in business administration includes, among other things, the theory of the firm, "a body of knowledge which is of considerable assistance to businessmen in their decision-making." This volume is mainly concerned with the theory of the firm. Though optimal decisions cannot be made with the help of the pure theory of the firm alone on account of factors such as uncertainty about the future and inadequacy and inaccuracy of various estimates required, there is no denying the fact that the decision-making business executive knowing the theory of the firm will act more logically in making vital decisions than one who has no such knowledge.

Theory of Profit

Profit being the main aim of running a firm, the book opens with an analysis of the theories of profit. Problems of profit measurement and in particular the questions of depreciation and stock valuation are adequately dealt with. This is followed by demand analysis. Demand is a function of a number of variables such as price, income, prices of substitutes, etc. Since a firm can manipulate only the price of its own product, attention is focussed on effect of price changes on demand, with a view to enabling the firm to forecast sales and to providing information as to how demand may be manipulated. In order to enable the management to maximize profit, relationship between product costs and output are discussed. Problems of formation under perfect competition, monopoly, monopsony, monopolistic competition as also oligopoly and duopoly are analysed with plenty of illustrations and graphs. The Section on price discrimination (of the first, second and third degree) and strategy of price discrimination on the basis of time, geographic area, quality, customer category, etc. is a fine example of the clarity which the author commands in analysing various problems dealt with in this volume. Sales promotion expenditure which is assuming very great importance both as cost element and for promotion of sales has received adequate attention in this small book.

The book is the product of an excellent combination of business acumen and high academic accomplishments. This combination has resulted in clarity of analysis and exposition not generally found in the writings of pure economists. The book should prove extremely valuable to students of business administration, businessmen and students of economics.

Decision-making permeates all management activities and often decision-making is described as "the total task of managers." Business executives are constantly called upon to make innumerable decisions under simple and complex conditions. Can decision-making be "taught" to business executives or is it only an intuitive process? Is there a science of decision-making?

There is no doubt that business executives can be trained in the process of decision-making by the use of modern sophis-

ticated concepts and methods evolved over a long period. The need for such training in India is all the greater because according to Mr R. S. Davar many executives in India "have a mental barrier to the use of modern techniques." This book meant for students of management and for executives, has two objectives, namely to present the decision-making process and the modern techniques used with their practical applications in specific fields, and secondly to help Indian business executives to break the mental barrier to the use of modern techniques.

Part one of the book dealing with "Decision Making—Theory and Process" introduces readers to decision-making process. Principal Davar in this article divides the process of decision-making into five distinct steps—defining the problem, analysing pertinent facts, developing alternative courses, deciding on the best course among the alternatives open, and finally converting decision into action—presents a schematic decision model and indicates how a choice among various alternative courses open should be made on the basis of standards or criteria. Mr Archer presents the components of the decision matrix and deals with the "Expected Value" technique for taking decision under risk and use of "Probabilities" for decisions under conditions of uncertainty. Mr Sinha shows in his article how in an international company, decisions instead of being taken by the top executives, are based on the opinions and general acceptance of the whole management team.

Part two deals with the problems of "Operations Research and Its Weapons". The division of an enterprise into separate components such as divisions, departments, etc. with their own specific problems, introduces potential conflict among different goals out of which emerges "executive type problems". New techniques and methods based on the use of mathematics and decision models become necessary to solve these problems. Morse and Kimball define Operation Research as "a scientific method of providing executive departments with a quantitative basis for decisions under their control." Prof. Lazer indicates how operation research improves management decision-making as also its limitations. Prof. Bension emphasises the utility of econometric programming models for better decision-making. Mr Moore emphasises the statistical approach to managerial problems. Mr Ghosal shows the areas where these methods are already being used in India and suggests that large Indian organizations should establish Operation Research Teams.

Managerial Control

Part three deals with the problems of "Managerial Control and Analysis". Ratio analysis is gaining in popularity in India. Prof. Gold presents in an excellent way a set of management control ratios involving the basic areas in managerial decision-making, price policy, cost control, rate of utilization of productive capacity, productivity of capital facilities and the internal allocation of investment resources. Mr Granville deals with budgetary control. The article on the role, uses, the methods and the status of distribution cost analysis is extremely penetrating.

Part four is devoted to application of the modern concepts and techniques presented in the previous three parts to specific management areas and activities.

There is no doubt that this book has brought in a compact way the best literature on the subject of Executive Decision-Making. Though decision-making primarily remains an art, the executives will no doubt be greatly aided in their decision-making if they are properly acquainted with the scientific basis underlying business decisions. India is on the path of

industrialization in a big way and there is no doubt that this book will help break the mental barrier of business executives in the country to the use of modern concepts and techniques in making business decisions.

With increasing industrialization, complicated problems of various types arise and there is no doubt that more and more sophisticated concepts and methods such as operation research, time and motion studies, evaluation and review techniques, etc., have to be introduced to tackle those problems. Mr Krish Pennathur has brought out a revised and enlarged second edition of his book on the subject of work study first published in 1964 and has tried to meet an important need of the management.

The author begins by clarifying the concept. "Work Study a modern industrial discipline comprising several scientific techniques evaluates the effectiveness of any work system, in order to raise the level of productivity, and provide greater satisfaction at work." The idea behind work study is to find out the potentialities of executives and workers and make its maximum use under the given circumstances, avoiding wastage at all levels of production.

The importance of work study cannot be overemphasised in India where administration, industry, especially industrial units in the public sector and agriculture are all characterized by the use of wasteful methods. There is wastage of time, of materials, in material-handling and inventory, in 'rejects' in space and building and through wrong carrier selection. Productivity (which is a comparative measure of output against input) can be and has to be increased to the maximum extent possible by eliminating all possible wastages.

Location of Problem Areas

The location of problem areas and the final selection of subjects for work study pose difficulties. The author has pointed out the method of selection of subjects for the application of work study. Implementation of the recommendations arising out of work study project is another difficult task. The author has done well to include a new chapter on this aspect with examples to illustrate the mechanics of implementation. The second edition includes additional chapters on Work Study in Administration, Fuel Efficiency, Programme for Small-Scale Industry and Modern Trends in Work Study Training. All these chapters are valuable. Work study which aims at increasing productivity, somehow has antagonised the trade union leaders and the working class in general on the assumption that the immediate consequence of all such projects is retrenchment of labour. In so far as our administration and public sector industrial units suffer from redundancy of hands, one wonders how scientific work studies can avoid this at least in the short-run. But it is also equally true that successful implementation of the scheme of work study at any level will have to enlist the whole-hearted co-operation of the trade union leaders and the labour force. The author over-simplifies this issue. Such conflicts cannot be solved by mere wishful thinking or by refusing to face them. Similarly, the author's suggestion that training facilities for learning new jobs and alternative employment for retrenched personnel should be provided by the management may not be feasible for a firm or for that matter even for the industry. Such issues will have to be tackled on national basis. The author oversimplifies such issues and glosses over the difficulties involved. These issues must be tackled boldly, though with sympathy and understanding. The author's attempt to extend the application of the principle of work study to agriculture, though a bold one, appears impracticable at this juncture. The application of such extremely sophisticated techniques to agriculture in its present stage bristles with innumerable difficulties. But a beginning of such studies may be made in the case of state farms and co-operative sugar factories.

While welcoming the pioneering work of Mr Krish Pennathur, one carries the impression that he should have been more

objective and analytical and the whole programme less ambitious. A beginning could be and should be made in work studies with simple models with only a few variables and then extended to more complex situations in administrative and industrial fields.

MARKETING OF COMMODITIES

Agricultural Producers And Their Markets: Edited by T. K. Warley, Basil Blackwell, Oxford; 1967; Pp. 596+xiv; Price 84s net.

Reviewed by BANARSI DASS

This volume is the outcome of an international seminar held at the University of Nottingham, England.

The sponsor of the seminar, the British Ministry of Overseas Development, seems to have been ambitious in conceiving the scope of the seminar. As many as 55 papers were presented at the seminar. These papers are published in four separate parts. Besides the university lecturers and professional research workers, marketing specialists and senior business executives from trade and industry have contributed papers. Thus, there are some very interesting and informative writings from people who are in the thick of things. This, to my mind, is a remarkable feature of this book in which persons with insight and inside experience speak on a given problem of marketing.

Part I of the book is entitled 'Marketing in Context.' It has six papers. There are two papers on the process of economic development and the role that agriculture plays in this development. The problems attending world trade in agricultural products, which are of crucial importance to the harmonious development of economic and political relations in the world as a whole, are analysed by Mr T. K. Warley, the editor. Mr C. D. Vincet, an economist, in his short paper, pleads for according a positive role to the marketing system in economic development. In another small paper, Mr B. J. Surridge outlines the special role of farmers' marketing organisations in economic development.

The commodity approach is adopted in Part II. There are 18 papers on nine agricultural commodities of major importance in international trade—tea, coffee, cotton, sugar, oils and oilseeds, tobacco, grains, cocoa and bananas. There are two papers on each commodity. The first paper on each commodity reviews factors affecting production, consumption, prices and trade. The second describes international and national marketing systems for the product and presents the views of traders and processors on the performance of the existing marketing system, particularly as this affects the needs of the producing countries.

The seven papers constituting Part III, 'Producers' Marketing Organisations,' examine the characteristics, status and problems of various types of producers' organisations in the United Kingdom, Europe and the developing countries. These organisations include marketing boards, traditional co-operatives, co-operative groups and producer-sponsored public marketing companies.

The last Part of the book covers a range of topics under the broad head 'Organization and Management'. This is the largest part, containing twenty-four contributions, of which many emphasize the need for marketing through co-operatives.

In the preface, the editor argues that "the success of the co-operative movement in both developed and developing countries will depend on the enthusiasm and capabilities of the people within its own ranks. But a growing volume of literature, to which this book is a contribution, can facilitate growth and adaptation, and can serve farmers, administrators, and students through the identification and classification of current and impending problems, the recording and examination of alternative courses of action, and the sharing of experience." One only wishes that the price of the book were not so prohibitive as to be out of the reach of those for whom it is supposed to be useful.

THE RIGHT KIND OF CLOTH/

**J.C.
FABRICS**

SPECIALITIES :

SUITINGS

ROLLER &

SHIRTINGS

SCREEN PRINTS

LENOS

TAPESTRIES

POPLINS

DHOTIES

TOWELS

SAREES

ETC. ETC.



Jiyajeerao
COTTON
MILLS, LTD.
BIRLANAGAR (M.P.)

RECORDS AND STATISTICS

Foreign Collaborations

DURING THE third quarter of 1967 (July-September), 53 cases of foreign collaborations were approved. Of these, 17 cases involved financial participation also. There were 13 collaboration cases with the UK, eight with West Germany, seven each with Japan and the USA, four with France, three with Sweden, two each with Holland, Italy and Switzerland, and one each with Austria, Bulgaria, Canada, Czechoslovakia and East Germany.

Name of the Indian party	Name of foreign collaborator	Item of manufacture
INDIA-U.K.		
Avery Co. of India Private Limited, Avery House, 28/2, Waterloo Street, Calcutta-1.	Averys Limited, U.K.	New types of weighing machines and testing equipments.
Auto Accessories (I) Limited, Forbes Building, Homes Street, Bombay-1.	Smiths Industries Ltd., Putney Vale, London S.W. 15, England.	Automobile Ancillaries—Spark Plugs.
(F) M/s. W. X. Mascarenhas, J. A. Tarporevala, N. S. Gupchup, Bombay-8.	Mr D. P. Bertlin, U.K.	Consultancy Engineering.
(F) Childcraft and Educational Enterprise, Army Naval Bldg., 148, Mahatma Gandhi Road, Fort, Bombay-1.	M/s E. J. Arnold & Co. Ltd., U.K.	Printing and Publishing Standard text books, science and technical books etc.
Heavy Electricals (India) Limited, Piplani P.O. Bhopal.	English Electric Co., U.K.	Hydraulic Turbine Generator Sets.
Indian Casablancas Private Limited, 127, Mahatma Gandhi Road, Bombay.	Casablancas Ltd., Bolton Street, Salford 3, U.K.	Patented parts of High Drafting System
India Pistons Ltd., Huzur Gardens, Sembiam, Madras-11.	M/s Wellworthy Ltd., Stanford Road, Lymington Hampshire, U.K.	Ring Carriers for Pistons.
Premier Automobiles Ltd., Construction House, Ballard Estate, Bombay-1.	Ricardo & Co., Engineers (1927) Limited, Bridge Works, Shoreham Sea, Sussex, England.	Chrysler Petrol Engines—conversion to over head valve system.
Peddington Chemical Industries (I), Wakefield House, Sporot Road, Ballard Estate, Bombay.	Paroxite (London) Ltd., 602/4, Victoria House, Victoria House, Southampton Row, London, W.C.I., England.	Wire Drawing coating compounds.
(F) Road Machines (Drayton) Limited, 31, Chittaranjan Avenue, Calcutta-12.	Road Machine (Drayton) Ltd., U.K.	Construction Equipments.
Reliable Water Supply Service of India Pvt. Ltd., 17, Gokhale Marg, Lucknow.	Lambert Engineering Co. (Glasgow) Ltd., Coatbridge Lanarkshire, Scotland, U.K.	Mobile Cranes.
Union Company (Accessories) Pvt. Ltd., 29, Mount Road, Madras.	M/s EPCO Ltd., Star Works, Leads 7, England.	Hydraulic Jacks.
M/s. Vikram Agencies, 187, Dr Naoroji Road, Fort, Bombay-1.	Balfour Electronics Ltd., Freshwater Road, Chadwell Heath, Essex, U.K.	Record Changers & Record Players.
INDIA-U.S.A.		
Globe Auto Electricals Ltd., Agra Road, Mulund, (West) Bombay.	Bendix Corporation (Eclipse Machine Division), III, West Fiftieth Street, New York-20.	Starter Drivers (Automobile ancillaries)
(F) India Book House, Eruchsahaw Bldg., 249, Dr Dadabhai Naoroji Road, Bombay-1.	Amerind Publishing Corporation, New York.	Printing and Publishing of Standard American Text Books.
M/s. Jenson & Nicholson (India) Limited, 225, Lower Circular Road, Calcutta-20.	Cook Paint & Varnish Co., North Kansas City, Missouri, U.S.A.	Water based Surface Coatings.

(F) indicates cases involving financial participation also.

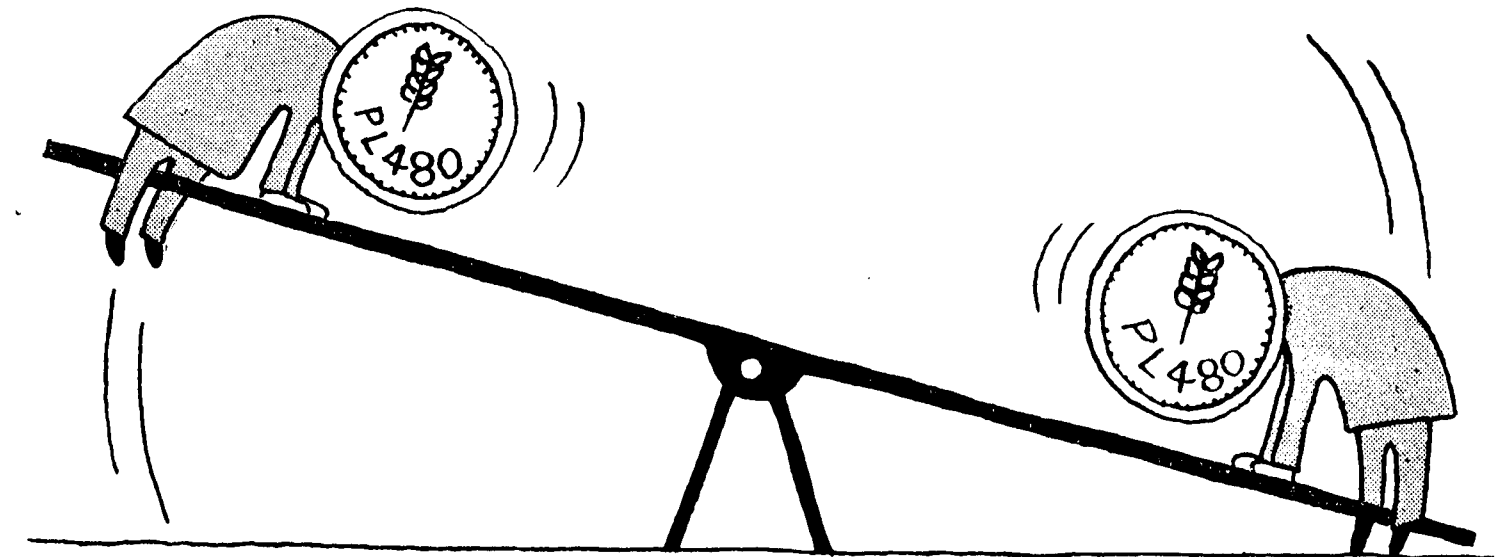
Name of the Indian party	Name of foreign collaborator	Item of manufacture
INDIA-U.S.A. (Contd.)		
M/s Kanji Moorarji, Kanmoor House, 281/87, Narsi Natha Street, Bombay-9.	M/s. Fritzsche Bros. Inc., 74, Ninth Avenue, New York.	Spice Extracts.
McNally Bird Engineering Co. Ltd., Chartered Bank Buildings, Calcutta-1.	Kennedy Van Satn. Corpn., Danville, Pennsylvania, U.S.A.	Lime Recovery Plants, Lime Burning Plant etc.
(F) Shah & Jariwala, No. 12, Champa Gully, Mulji Jetha Bldg., 3rd Floor, Bombay-2.	Bright Star Industries, U.S.A.	Dry Cells and Batteries.
(F) Tata Industries Pvt. Ltd., Bombay House, Bruce Street, Fort, Bombay-1	International Hotels Corporation of U.S.A.	Setting up of a Hotel.
INDIA-WEST GERMANY		
(F) M/s Achhruram Sohanlal, 25, Stephen House, 5, Dalhousie Square East, Calcutta-1.	Kalkhof GmbH Peterson and Stroever, Mainz, West Germany.	Bleached Shellac.
M/s L. G. Balakrishnan & Bros. Pvt. Ltd., Ganapathy Works, Krishnaryapuram Road, Ganapathy P.O., Coimbatore-6.	M/s Depol Deutesches Gummi-Regenerier Works, Hamburg, West Germany.	Reclaimed Rubber.
(F) Indoplast Limited, Kasturi Buildings, Jamshedji Tata Road, Bombay-1.	Badische Anilin-Soda-Fabrik AG Ludwigshafen am (BASF) Rhein, West Germany.	Expandable Polystyrene.
(F) Indoplast Ltd., Kasturi Buildings, Jamshedji Tata Road, Bombay-1.	Badische Anilin-Soda-Fabrik AG Ludwigshafen am (BASF) Rhein, West Germany.	Synthetic Tanning Agents.
Nazagon Dock Ltd., Room No. 190, 'F' Block, Min. of Defence, New Delhi.	Kampnagal, West Germany.	Cranes.
Siemens Engineering & Mfg. Co. of India Ltd., 130, Worli, Bombay-18.	Siemens Reiniger-Werke A.G. Erlangen, West Germany.	Electro Medical Equipment.
Tata Engineering & Locomotive Co. Ltd., Bombay House, 24, Bruce Street, Fort, Bombay-1.	Gebruder Honsberg, Renscheid-Hasten, West Germany.	Special Purpose Machine Tools.
Zell-Ate Private Ltd., 43, Forbes Street, Fort, Bombay-1.	Univeg Maschinen-Und Apparatebau GmbH, & Co., K.G., 8904, Friedberg-West, West Germany.	Pneumatic Hammers up to 1 Cwt. capacity.
INDIA-JAPAN		
Acme Manufacturing Co. Ltd., Construction House, Ballard Estate, Bombay.	Mitsubishi Heavy Industries Ltd., Japan.	Engine Valves.
Aluminium Industries Ltd., No. 1, Ceramic Factory Road, Mundara (Kerala).	Hitachi Cable Ltd., Japan.	Conductors & Cable Accessories.
Ameteep Machine Tools Pvt. Ltd. 14/7, Mathura Road, Faridabad.	Yodogawa Press Mfg. Co. Ltd., Itami, Japan.	Mechanical Power Presses and Press Brakes.
Binny's Engineering Works Ltd., P.O. Box 111, Madras-61.	Satake Engineering Co., Ltd., 7-2, Sota Kanda-4-Chome, Chiyoda-ku, Tokyo.	Rice Milling Machinery.
(F) KEL Components Pvt. Ltd., B-13, Industrial Estate, Ambathur, Madras.	Alps Electric Co. Ltd., Tokyo, Japan.	Radio Components Miniature Volume Controls & hand change switches.
(F) Plastic Resins & Chemicals Ltd., 15A, Horniman Circle, Fort, Bombay-1.	i) Kureha Chemical Industry Co. Ltd., Japan ii) Chiyoda Chemical Engg. & Construction Co. Japan iii) Marubeni-Iida Co. Ltd., Japan iv) Marubeni-Iida (America) Inc.	P.V.C.
(F) Transformers and Electricals Kerala Ltd., Angamally P.O., Ernakulam (Kerala State).	M/s Hitachi Ltd., Tokyo, Japan.	Radiators, Bushing, on-load tap changers.

(F) indicates cases involving financial participation also.

Name of the Indian party	Name of foreign collaborator	Item of manufacture
INDIA-AUSTRIA		
Antifriction Bearings Corporation Ltd., Marshalls Building, 20, Ballard Road, Bombay-BR.	Steyl Daimler Puch A.G., Austria.	Taper & Cylindrical Roller Bearings.
INDIA-BULGARIA		
(F) Curewel (India) Ltd., G-27, Nizamuddin West, New Delhi.	Technoexport, Bulgaria.	Gamma Globulin and its ampoules.
INDIA-CANADA		
M/s Shib Banerjee Construction (P) Ltd., 20, Gariahat Road, Calcutta-19.	Canadian Framwork Corporation, Canada.	Form-lok Systems.
INDIA-CZECHOSLOVAKIA		
(F) Ideal Jawa (India) Pvt. Ltd., Industrial Estate, Mysore-2.	M/s Motokov, Praha, Czechoslovakia	Motorcycles.
INDIA-FRANCE		
M/s Bir and Sons, 13, Patel Marg, Allahabad-1.	Chapchoul & Co., 11, Rue Etienne Marcel 93, Pantin, France.	Letter types for typewriters.
(F) Industrial & Engineering Project Pvt. Ltd., D-9, Defence Colony, New Delhi.	Mr Michel Boulat, France.	Consultancy Engineering.
Larsen & Toubro Ltd., Express Building, B. S. Zafar Marg, New Delhi.	UNELEC, 75, Paris (8 eme), 14, rue de la Baume, France.	Low tension air circuit breakers.
Productivity Elements Private Ltd., B-14, Ambattur Industrial Estate, Madras-58.	M/s Guillemain Sergot Et Pegard, 124, Boulevard de Verdun, Gourberioies (Seine), France.	Drilling and Boring Machines.
INDIA-HOLLAND		
Crookes Interfran Ltd., 254-D, Dr. Annie Besant Road, Worli, Bombay-18.	Central Laboratorium Van de Blood-transfusie dienst Van het Nederlandsche Roode Kruis, Amsterdam, Holland.	P.V.C. Containers & Accessories for Transfusion solution.
Philips India Ltd., 53, Jorbagh, New Delhi-3.	N.V. Philips Gloeilampen-fabriken of Eindhoven, Holland.	Tungsten Filaments & Molybdenum Wire etc.
INDIA-ITALY		
Carter Pooler & Co. Private Limited, 1, Kashinath Dutta Road, Calcutta-36	M/s OM SPA-Piazza S. Ambrogio 6-Milano, Italy.	Fork Lift Trucks.
(F) M/s K.P. Lall & Co., B-9, Greater Kailash, No. 1, New Delhi-14.	Industrial Vernici Italiane, Milano, Italy.	Paints, N/C Lacquers, Enamels etc., etc.
INDIA-SWEDEN		
Poona Gauge & Tool Co., 1194/7A, Ghole Road, Poona-5.	M/s A.B.C.E. Johanson, Sweden.	Screw Thread Gauges.
(F) B. G. Shirke & Co. 1205, R. B. Apte Road, Poona-4. (M/s Siporex-India Ltd.).	Internationelia Siporex A.B. Stockholm, Sweden.	Light Weight Cellular re-enforced concrete slabs.
Tak Machinery Ltd., Janamabhoomi Bhavan, Ghoga Street, Fort, Bombay-1.	Ursvikens Mekaniska Verkstads AB, Ursvikens, Sweden.	Guillotine Shearing Machines.
INDIA-SWITZERLAND		
Atul Drug House, 85, Dr Annie Besant Road, Worli, Bombay-18.	Laboratories Vifor, S.A., Genera, Switzerland.	Vifor Equipment for perfusion, Blood Administration & Hemoflex.
Mansinghka Export Co., Manufacturers and Exporters of Mica & Asbestos, Rhihwara.	Micafil Limited, Zurich, Switzerland.	Micafolium.
INDIA-EAST GERMANY		
Southern Cable Corporation Ltd., P.B. No. 1972, 116/117, Moore Street, Madras-1.	LIMIX, GmbH, Berlin.	Wire and Cables.

(F) indicates cases involving financial participation also.

THE MONETARY IMPACT OF PL 480 FINANCE



AN EASTERN ECONOMIST SUPPLEMENT

Are PL 480 Imports Inflationary?

THIS SUPPLEMENT deals with a subject which has raised considerable controversial dust in recent years. The papers which follow present different points of view and will be read at a seminar to be held at the Ashoka Hotel, New Delhi, on November 11 and 12 under the auspices of the Economic Research Centre, a new society which has taken upon itself the task of "research in economic policy matters of current public interest". The society promises to organise seminars, workshops, symposia and lectures on policy issues.

The moving spirit behind the society is Prof. B. R. Shenoy, who has devoted considerable time and energy to assessing the impact of PL 480 finance on our economy. In the paper included in this supplement he has presented his case in unequivocal terms in that the US-owned PL 480 counterpart funds are not neutral in their impact on our economy as the Indian-owned portion of the funds is. He argues that the former constitute created money whose disbursements accentuate inflation. The mechanism of converting the US-owned counterpart funds into created money has been described by him in great detail. He has come out with some concrete suggestions which merit close scrutiny.

The American point of view on the subject has been presented by Dr Samuel A. Costanzo, Financial Attache, US embassy, New Delhi. His thesis is that in a situation obtaining in India where shortages of food disrupt the economy frequently, imports of foodgrains and other agricultural commodities under PL 480 have been acting as a brake on inflationary tendencies. The manner in which the funds

yielded by PL 480 imports have been invested in the Indian economy have created capacity for further generation of goods and services and to that extent they have been deflationary.

Nearly four-fifths of these funds have been made available by the US government to the Government of India in order to speed up our economic development. Part of this assistance has been given as outright grants while the loans have been granted at low rates of interest. About one-fifth of the PL 480 funds constitute the share of the US embassy out of which one-third is set aside for making available loans to Indo-American ventures for expanding their operations. The remaining two-thirds of the US share of PL 480 funds is used to cover the expenses of the US mission in India for educational exchanges and for assisting some of the development projects approved by the Government of India. Dr Costanzo has explained exhaustively the mechanism of the use of these funds.

Because of paucity of space, some of the other papers which will be read at the seminar could not be accommodated. The Ministry of Finance is likely to present its version in a paper prepared by its experts. The Reserve Bank of India is also submitting a paper describing its understanding of the implications of the use of PL 480 funds.

The discussions at the seminar should be interesting as well as illuminating. We hope they will help in assessing the true impact of the PL 480 funds on our economy.

PL 480 Finance

B. R. SHENOY

WE SHALL examine in this article the mechanics and processes of PL 480 financial operations in order to assess the monetary impact of these operations. This would bring under review the arrangements for the payments for PL 480 imports, the investment of these payments in special securities, the use of the sale proceeds of PL 480 foodgrains, the manner of retirement of special securities to provide liquid funds against them to the US embassy, and the extent of the budget support from PL 480 operations. This review is followed by a discussion of the measures of reform, which the analysis and conclusions call for. An attempt has been made to portray in three diagrams the mechanics and processes of PL 480 operations and of their monetary impact.

Some facts regarding PL 480 finance may be briefly stated. Of Rs 1,693 crores of payments received by the USA for PL 480 supplies during the 11 years ending 1966-67, the US embassy expenditures accounted for only about Rs 84.7 crores, or somewhat over five per cent of the total; and loans and grants to Nepal Rs 37.2 crores, or 2.2 per cent of the total. About 79 per cent was returned to the Government of India as loans and grants; and about seven per cent was used for Cooley loans to "joint American and Indian firms".*

Special Securities

The unutilised part of PL 480 funds, which amounted to Rs 559 crores on March 31, 1967, was held in special securities and was, therefore, "available to the Indian government"*** as general purpose support to the capital budget.

Looking at these transactions from the US end, it may be justifiably stated that the rupees, which the US embassy disburses, represent the proceeds of the sales of PL 480 imports to the Government of India; and that, in disbursing these sale proceeds, they engage in no more damaging transactions than those who may dispose of the rupee proceeds of non-PL 480 imports. But the facts of PL 480 operations are rather involved. The PL 480 rupees with the US embassy cannot be placed on a par with the rupees acquired by traders against non-PL 480 imports. The latter being drawn from the pockets of the people, their disbursement would only restore the rupees back into circulation. The total volume of money with the public would remain unaffected.

Not so in the case of PL 480 rupees. These rupees do not represent the proceeds of the sales of PL 480 imports to the Indian public. Payments for PL 480 imports are made immediately advice is received by the Ministry of Agriculture, of their delivery, by US trade, to the nominees of India Supply Mission, Washington. It takes some time for the imports to arrive and to be disposed of to the public.

Nor are these payments financed from ordinary budget resources. If we may divide budget operations into two parts, those relating to PL 480 and to non-PL 480 operations, respectively, we find that during the eleven years ending 1966-67, even the finance of non-PL 480 payments called for government borrowings from the Reserve Bank of India (RBI) and commercial banks, the total of such borrowings, or money creation, being Rs 1,277 crores.

Two conclusions emerge from these data. First, as non-inflationary budget resources fell short of the needs of even

non-PL 480 payments, the entire amount of PL 480 payments of the period (Rs 1,693 crores) was created moneys. Secondly, disbursements, by the US embassy, of PL 480 rupees, were inflationary, as these rupees were created moneys.

This prima facie position gets confirmed from a closer look at the operational dynamics of PL 480 finance, which we shall now review briefly. Payments for PL 480 imports, from created moneys, are effected by crediting the rupees worth of these imports to the account of the US embassy with the RBI. These payments are "almost simultaneously"† invested in special securities, bearing interest at 1½ per cent. Though special securities are non-transferable documents, they are "repayable on demand"†† of the US embassy.

Special securities are part of the debt liabilities of the Government of India, being classed with unfunded debt, together with small savings, provident funds and such other items. They are not financial ghosts, as some have tried to make out, any more than the rest of unfunded debt; like the latter, the proceeds of the sales of special securities (to the US embassy) enter physically on the receipts side of the budget and provide general purpose budget support. The amounts of the sale proceeds are added to "Central Government Deposits" with the RBI and the latter are drawn upon to finance capital account disbursements in the same way as the proceeds of other unfunded debt.

Thus, PL 480 payments come back to the Government of India as capital receipts. As the total amount of special securities would be, clearly, equal to the rupees paid for PL 480 imports, it follows that this arrangement brings to the capital budget credit to the full extent of the rupee payments for these imports; and, on an assumption of no-profit-no-loss basis, we may further say, with perfect justification, that, by taking credit for the proceeds of special securities, the capital budget, in effect, takes full credit for the proceeds of the sales to the public of PL 480 imports. These credits aggregated to Rs 1,693 crores during the 11 years ending 1966-67 (Table I and Diagram 1).

A Matter of Detail

It is a matter of detail, and of no substance, that, to begin with, the receipts against special securities may be passed on to the trading wing of the state to place the latter in funds for the purchase of PL 480 imports (Diagram 1). Viewing this operation from the side of the trading wing, it is a case of borrowing from the general resources of the government; and, as stated in the 'Explanatory Memorandum' for 1967-68 (p. 82), it gets recorded in budget accounts as a debit entry under the head "Capital Outlay on Schemes of Government Trading". As and when PL 480 imports arrive, they are acquired by this trading wing and, in due course, exchanged for cash, from the public, by sales through ration shops or otherwise, the sale proceeds being credited also to "Capital Outlay on Schemes of Government Trading".

From these sale proceeds, the trading wing will repay into the central budget its working capital borrowings. This repayment would bring back into the capital budget the amount of the receipts against special securities. Though the sale proceeds of PL 480 imports are credited to the trading wing of the state—a most natural accounting procedure as these sale

proceeds constitute the circulating real capital of trading activity—the repayment of the loan from the sale proceeds, so to speak, imparts reality to our earlier assumption that the credits taken in the capital budget for the receipts against special securities are tantamount to taking credit for sale proceeds of PL 480 imports.

The trading wing of the state will also pass on to budget accounts the profits or losses from trading in PL 480 imports; and the costs of holding stocks, if, as might happen in individual years, part of PL 480 imports should be added to stocks. The net profit or loss of this trading in PL 480 imports, including the costs of additions to stocks, appear on the disbursements side of the capital budget against the head, "Purchase and Sale of Foodgrains", the amount in 1965-66 being a credit entry of Rs 87 crores, and in 1966-67, a debit entry of Rs 158 crores (Table II).

These figures, however, relate to trading in not only PL 480 foodgrains but also non-PL 480 imports and domestic procurements of foodgrains. Separate figures relating to PL 480 foodgrains are not available. It is, therefore, not possible to identify the contribution of the trading in PL 480 imports to these net positions. The sharp swing from a sizable credit entry in 1965-66 to a heavy debit entry in 1966-67 represents, as stated in the 'Explanatory Memorandum' for 1967-68 (pp. 65 and 79), the effects of the devaluation of the rupee. While devaluation increased the landed costs of PL 480 imports by 57.5 per cent, the sale prices of the foodgrains did not go up by the same margin.

Non-Inflationary Operation

The outcome of this sophisticated accounting arrangement is that the net support accruing to the central budget from PL 480 imports would be precisely the sum of the proceeds of the sales of these imports to the public, namely, the rupee payments for PL 480 imports less the sum of the food subsidies and of the costs of the additions, if any, to government stocks. Since, in drawing on these funds, the government, in effect, would be but issuing out moneys withdrawn from circulation, this operation is non-inflationary. That credit may be taken in the budget for the sale proceeds before the

imports are, in fact, sold to the public makes no difference to the non-inflationary character of PL 480 operations thus far. This time lag cannot alter the cancellation of debits by credits; nor the overall result of such cancellation, namely, a neutral monetary impact.

Two Counterpart Funds

The issues dealt with above—payments for PL 480 imports, the investment of these payments in special securities and budget support from the sales of PL 480 imports—are but part of the story of PL 480 financial operations. The second half of the story relates to US uses of PL 480 funds.

In considering the monetary impact of this second half of PL 480 operations, it is important to bear in mind an essential difference between the counterpart funds emerging from Marshall Aid operations and from PL 480 operations. Marshall Aid gave rise to but one counterpart fund in each of the aid receiving countries, the "local currency proceeds" of the "sale of foreign goods or foreign exchange", received as aid. Though the Marshall Aid counterpart fund became, by an act of gift, the property of the aid receiving countries concerned, it was subject to dual control: the Marshall Aid Administration, by mutual agreement, retained a say in disbursements from this fund. But these disbursements were non-inflationary, as they returned into circulation moneys taken out of the pockets of the people.

The PL 480 aid, on the other hand, generates two counterpart funds, a US-owned counterpart fund and an Indian-owned counterpart fund. Payments in created moneys, for PL 480 imports, invested in special securities, the exclusive property of USA, represents the US-owned counterpart fund; and the proceeds of the sales to the public of PL 480 imports, the exclusive property of the Government of India, represent the Indian-owned counterpart fund. The latter corresponds to the Marshall Aid counterpart fund; and disbursements from it, as we have seen, have a neutral monetary impact (Table V).

We cannot say the same thing of the drafts on the US-owned counterpart fund. From the US standpoint, the investment of this fund in special securities is but a device of keeping idle

TABLE I
P. L. 480 TRANSACTIONS

End of year	PL 480 imports	PL 480 loans to Govt. of India	PL 480 Grants to Govt. of India	US uses of PL 480 deposits (1)	PL 480 deficit financing (2+3+4)	PL 480 loans outstanding	PL 480 deposits invested in special securities	Non-PL 480 deficit financing (9-5)	Total deficit financing	5 as % of 8
	1	2	3	4	5	6	7	8	9	10
1956-57)				6.0	6.0			205.8	211.8	2.8
1957-58)								495.4	495.4	0.0
1958-59)	518.4	5.0		8.4	13.4	5.0		310.1	323.5	4.1
1959-60)		23.0	0.3	18.1	41.4	28.0		229.1	270.5	15.3
1960-61)		49.8	3.4	21.3	74.5	77.9		101.3	175.8	42.4
1961-62	87.5	54.7	13.4	5.9	73.9	132.6	54.1	103.1	177.0	41.8
1962-63	122.9	79.7	54.4	23.8	157.9	212.3	48.1	94.9	252.8	62.5
1963-64	185.2	66.2	62.8	23.8	152.8	278.4	87.4	128.5	281.3	54.3
1964-65	215	170.4	122.0	23.8	316.2	448.7	—1.6	—88.0	228.2	138.6
1965-66	239.2	80.0	60.0	23.8	164.0	528.4	133.1	98.0	262.0	62.9
1966-67 (R.E.)	324.0	350.0	0.1	28.9	379.0	877.6	—2.7	—105.0	274.0	138.3
Total	1,692.5	878.8	316.5	183.8	1,379.1	877.6	558.8	1,573.2	2,952.3	46.7

(1) The figures in this column, for the years 1962-63 to 1966-67, are arithmetic averages of estimates based on the rest of the data; and the figure against 1966-67 includes PL 480 grants of Rs 5.1 crores, returned to the US Embassy, for the credit of TCM.

Sources: 'Reserve Bank of India Bulletin', January 1963; 'Explanatory Memorandum' on the budget of the central government; Economic classification of the central government budget; 'Economic Survey'; 'Background' (USIS); Ministry of Finance; and Reserve Bank of India.

* Chester Bowles, "What Happens to PL 480 Rupees". 'American Reporter', May 24, 1967.

** Ibid

† Lok Sabha statement of Finance Minister on May 3, 1965, on PL 480 finance (para 3).

†† 'Explanatory Memorandum' on the budget for 1966-67, p. 65.

moneys employed, pending their final use. When it is time to disburse the committed loans, grants and the US uses from PL 480 funds, the US embassy proceeds to encash special securities at the RBI. We have seen that, not so long ago, the initial payments to the embassy for PL 480 imports had been made in created moneys, because ordinary budget resources were inadequate even to cover non-PL 480 payments. Nothing has happened since then and as at the time of encashment of special securities to alter this deficit budgetary position. Quite obviously, therefore, special securities would be redeemed through money creation (Diagram 2).

This happens somewhat as under. As special securities are non-negotiable documents, the RBI (or any individual or institution for that matter) cannot legally acquire them. To permit encashment, they must be first cancelled and then re-incarnate as Treasury Bills, or any other form of negotiable public debt. In their new garb, they are acquired by the RBI, equivalent amounts being credited to "Central Government Deposits" with the RBI; thereupon, by debiting these deposits, the US embassy is provided with liquid funds equal in amount to the special securities surrendered by it for encashment (Table III).

This eventually may be preceded by an interim finance of ad hoc Treasury Bills as depicted in Diagram 3. Redemption of special securities would deplete central government deposits to below their working balances level of Rs 50 crores. The depleted deposits would be replenished by ad hoc Treasury Bills. As the latter pile up unduly high, they would be funded into public debt of appropriate category and maturity.

Expansionary Effect

These operations would leave unchanged the aggregate amount of government debt, the decline in the amount of special securities (unfunded debt) being exactly balanced by the increase in public debt. But public debt with the RBI would increase by the amount of the "retirement" of special securities. Since the liquid funds placed at the disposal of the US embassy would be created moneys, disbursements from the US-owned counterpart fund—PL 480 loans and grants and US uses of PL 480 rupees—would be expansionary (Diagram 2).

During the 11 years ending 1966-67, disbursements from the Indian-owned counterpart fund totalled Rs 1,693 crores, or the amount of PL 480 imports. With budgets being in deficit, it may be safe to presume that no part of this fund remained unspent at any time. On the other hand, disbursements from the US-owned counterpart fund, or the sum of PL 480 loans and

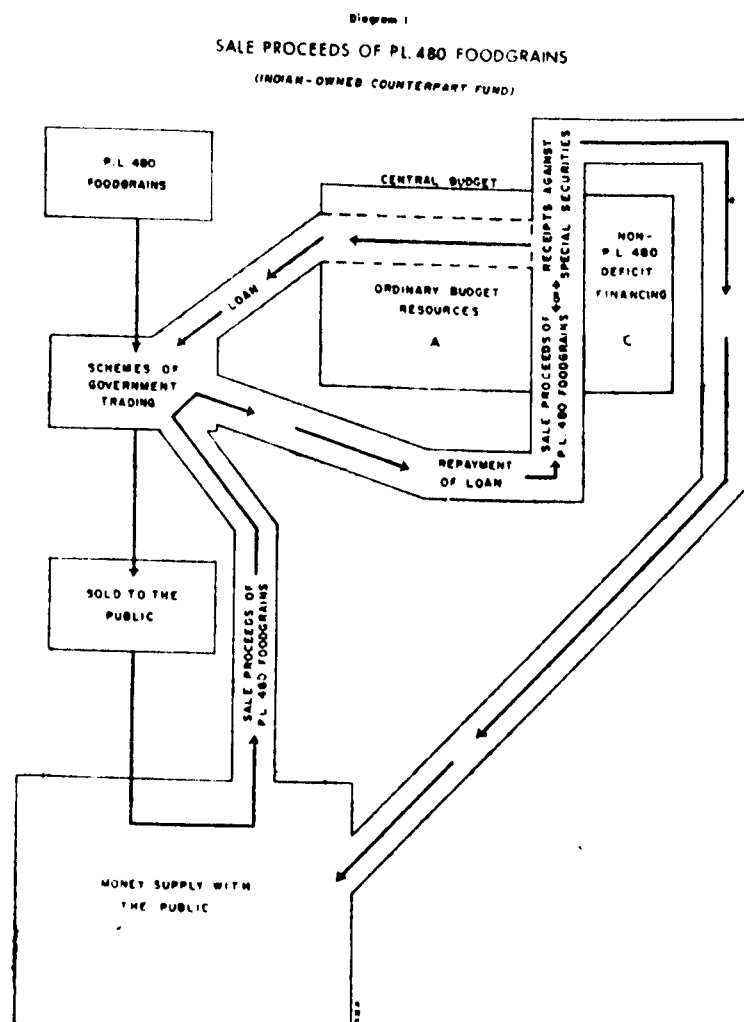
NOTES TO DIAGRAM 1.

Note 1: Interpreting this diagram in terms of actual figures, PL 480 imports amounted to Rs 239.2 crores in 1965-66. The diagram presents a case of this amount being borrowed by the schemes of government trading from general budget funds to acquire the foodgrains (See Explanatory Memorandum, 1967-68, p. 82). The state trading organization concerned then sells the foodgrains to the public, and from the sale proceeds repays the loan into the general budget funds. These repayments provide general purpose capital budget support, i.e., are utilised to finance capital budget disbursements. As these disbursements represent moneys withdrawn from circulation against the sales of foodgrains, the net impact of the two operations on money supply would be neutral. This impact may be inflationary only to the extent of food subsidies, if any.

Note 2: Whether the state trading organization obtains its working capital from general budget funds or from the market, partly or wholly, is a matter of detail. The essential part of the total operation is that the capital budget draws general purpose support from the sale proceeds of PL 480 imports. It derives this support from the time of payments for PL 480 imports, as the funds received by USA for the imports are invested in special securities "almost simultaneously" with their

grants and US uses of PL 480 funds, aggregated to but Rs 1,379 crores, i.e., about 29 per cent (Rs 559 crores) of this fund remained unutilised as at the close of the 11-year period; we are considering disbursements from the Indian-owned counterpart fund left the total monetary circulation unchanged while disbursements from the US-owned counterpart fund added to this circulation Rs 1,379 crores of RBI money (Table IV).

Though both counterpart funds ensue from PL 480 imports,



receipt. The budget takes credit for the full amount of these securities. It does not take credit for the sale proceeds of PL 480 imports as such; to do so, in this context, would be double counting.

Note 3: The statement in Note 2—that credit is taken in the capital budget for the full amount of the payments for PL 480 imports, which are invested in special securities—and the fact that the budget for 1965-66 shows receipts against special securities of only Rs 133.1 crores, not Rs 239 crores, the full amount of PL 480 imports, do not conflict with one another. The balance of the special securities, namely, Rs 106.1 crores (plus interest and capital repayments on PL 480 and allied debt, together with errors and omissions, namely, Rs 57.9 crores) were presented to the Reserve Bank of India for liquid funds. These funds financed Rs 164 crores of disbursements during the year, from the US-owned counterpart fund. These disbursements represent PL 480 deficit financing.

Note 4: Rectangle, C in the diagram stands for non-PL 480 deficit financing, the amount of it in 1965-66 being Rs 98 crores. Total deficit financing of the year was Rs 262.0 crores, of which PL 480 deficit financing amounted to Rs 164.0 crores. In other words, in the absence of disbursements from the US-owned counterpart fund (Rs 164.0 crores), deficit financing in 1965-66 might have been but Rs 98 crores.

it will be noted that the US-owned counterpart fund is larger than the Indian-owned one. The explanation is that, while the latter comprises the sale proceeds of PL 480 imports, the former is the sum of PL 480 deposits representing payments for PL 480 imports, plus interest and capital repayments on PL 480 debt (i.e., special securities and PL 480 loans), TCM loans, DLF loans and Cooley loans, all of which are invested in special securities. As at the close of 1966-67, the US-owned counterpart fund was larger than the Indian-owned one by Rs 245 crores, the amount of the interest and amortisation payments, referred to above (Table IV).

When the government acquires liquid funds from the RBI or commercial banks, against public debt, we have a case of deficit financing, i.e., use of created moneys to meet govern-

ment disbursements. We have seen that the acquisition of liquid funds by the US embassy to meet commitments of the US-owned counterpart fund, involves sales to the RBI of public debt of an amount equal to these commitments; it involves, that is to say, deficit financing or government borrowings from the RBI to redeem special securities. This deficit financing may be properly described as PL 480 deficit financing. Total deficit financing, then, is the sum of PL 480 deficit financing and non-PL 480 deficit financing.

In the first three years, 1955-56 to 1958-59, of the PL 480 programme, PL 480 deficit financing was negligible to nil, the average for the period being 1.9 per cent of total deficit financing. The acceleration of the drafts on the US-owned counterpart fund, soon led to PL 480 deficit financing exceeding 40 per

TABLE II
SUMMARY OF CAPITAL BUDGET

				(Rs. crores)			
Receipts	1965-66 (Accounts)	1966-67 (R.E.)	1967-68 (B.E.)	Disbursements	1965-66 (Accounts)	1966-67 (R.E.)	1967-68 (B.E.)
1. Public debt raised in India:	334.10	329.59	351.70	1. Social and development services	152.76	184.11	210.40
(a) Held by Reserve Bank and commercial banks	139.20	—26.00	175.00*	2. Currency and mint	80.79	220.70	19.96
(i) PL 480 generated public debt	164.00	380.10	180.00	3. Miscellaneous :	143.14	704.58	413.73
(ii) Other public debt	—24.80	—406.10	—5.00	(a) Purchase and sale of foodgrains	—86.73	157.50	102.45
(b) Held by the market outside banks	194.90	355.59	176.70	(b) Transfer of PL 480 loan assistance to special development fund	80.00	350.00	150.00
2. Public debt raised outside India (other than PL 480 loans)	482.41	642.24	835.00	(c) Trading losses financed from ordinary revenues	—18.26	—18.29	—23.47
3. PL 480 loans and deposits :	213.06	323.26	285.00	(d) Others	168.13	215.37	184.75
(a) PL 480 loans†	80.00	350.00	150.00	4. Loans and advances	1,200.01	1,413.34	1,118.40
(b) PL 480 deposits invested in special securities	133.06	—26.74	135.00	5. Repayment of debt	254.29	354.48	453.94
4. Special development fund (net):	181.33	432.42	175.67	6. Others	400.39	317.73	314.35
(a) PL 480 loans†	80.00	350.00	150.00	7. Total disbursements (1+2+3+4+5+6)	2,231.38	3,194.94	2,530.78
(b) Other loans and assistance	—261.33	82.42	25.67	8. Overall surplus	...	...	...
5. Other items (net)	940.62	992.94	650.57				
6. Total capital receipts (1b+2+3+4+5)	1,649.66	2,746.45	2,122.94				
7. Revenue surplus	319.76	174.49	232.84				
8. Overall deficit:	261.96	274.00	175.00				
(a) Financed by Treasury Bills and drafts on cash balances	122.76	300.00	...				
(b) Financed by borrowings against sales of public debt to Reserve Bank and commercial banks	139.20	—26.00	175.00				
Grand Total	2,231.38	3,194.94	2,530.78	Grand Total	2,231.38	3,194.94	2,530.78

* Estimate based on the assumption that the banking system may absorb about the same average proportion of the total public debt.

† Though PL 480 loans appear on the receipts side twice, once as part of public debt and for a second time as part of SDF, this does not involve, viewing the budget as a whole, any double counting. As the 'Explanatory Memorandum' for 1965-66 (p. 199) has clarified, SDF is a "notional" fund, designed solely for the convenience of bringing together "at one place the assistance received from various foreign sources as also its utilization". It was set up in October 1951 from the sale proceeds of wheat, received under the American Wheat Loan and from Commonwealth countries, under the Colombo Plan. To this fund was added, later, aid in kind received under other heads, including PL 480 loans and grants.

Source: 'Explanatory Memorandum' on the budget of the central government for 1967-68, pp. 64-65.

cent of total deficit financing; and during the past three years, 1964-65 to 1966-67, it was larger than total deficit financing by Rs 95 crores. It follows that, in the absence of PL 480 deficit financing, the central budgets, during this three-year period, might have shown an aggregate overall surplus of Rs 95 crores, in place of the actual aggregate deficit of Rs 764 crores (Table I).

During this three-year period, money supply rose by Rs 1,202 crores, or by 32 per cent, and prices by 46 per cent, or at an annual rate of 15.3 per cent. This is a near-record rate of increase in the history of price inflation in India, this rate having been exceeded only in the early years of World War II. This is a matter for grave concern as prices have more than doubled during the past 1½ decades and, currently, are 8.4 times their pre-World War II level.

Many think that family budget pressures, arising from price inflation and the perverse income shifts—from the masses to the upper-income groups, in particular, to a thin top crust of the affluent—which have ensued from our policy measures of the past 1½ decades, are underneath the bewildering phenomena of gheraos, bandhs, dharnas, work-to-rule, picketings, strikes, lock-outs, the unprecedented lawless demonstrations by the Delhi police, Shiva-Sena, Hanuman-Sena, agitations against the high pricing of urban milk supplies and the upward revisions of school fees, Naxalbari and so on. To persist in PL 480 deficit financing in such an explosive background would be to feed these forces of social and political instabilities.

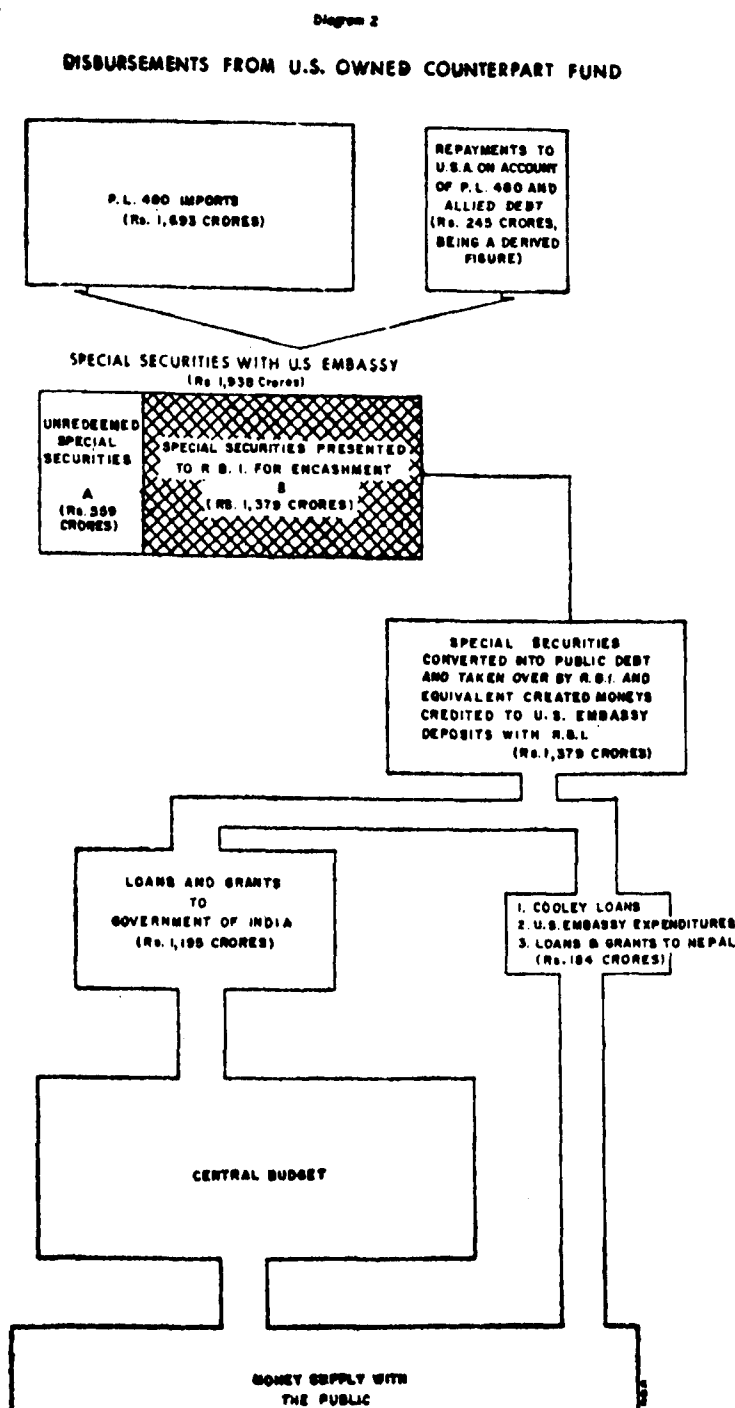
It is important to note that inflation does not ensue from the financial operations which attend non-PL 480 aid. These latter operations differ basically from PL 480 financial operations. Wheat received under the American Wheat Loan, 1951, and the commodities received under the US Development Assistance Programme are not paid for in cash. As created moneys do not enter into the picture at all, the question of any inflation from non-PL 480 aid does not arise.

But non-PL 480 aid, too, gives rise to rupee counterpart funds, the sale proceeds of commodities, or of foreign currencies, received as aid. As stated in the 'Explanatory Memorandum' for 1967-68 (pp. 82 and 187), these sale proceeds are "treated as lent to the Government of India and directly adjusted as such under public debt". The US government gets, in exchange for such aid, loan documents specifying, among other things, interest and amortisation payments; and the Government of India gets budget support by the amount of the rupee counterpart funds. Since, in using these rupees, the government would be only restoring into circulation moneys acquired from the public, these operations are non-inflationary. The Indian-owned PL 480 counterpart fund corresponds to the counterpart fund of non-PL 480 aid.

Measures of Reform

If the conclusions emerging from the foregoing analysis are valid, certain unwelcome inferences follow. Though the foodgrains received under the Food for Freedom programme have been feeding a hungry people, the prevailing scheme of financing this programme is inflationary. And this consequence applies not to India alone. But being the largest beneficiary of PL 480 supplies, the inflationary pressures are correspondingly large; and these pressures are piling up on an already inflation ridden economic set-up. Our analysis indicates that it is not correct to say that the US-owned counterpart fund receives, and disburses, but the sale proceeds of PL 480 imports. It is much rather that this fund receives, and hands back to the Government of India, only created moneys to finance the latter's disbursements; and their magnitudes have assumed disturbing dimensions during the past three years. As every financial transaction must have two willing partners, the responsibility for this development may not be wholly unilateral.

Considering the critical inflationary situation, it is a matter



NOTES TO DIAGRAM 2

Note 1: Rectangle A stands for special securities carried forward in the US-owned counterpart fund and Rectangle B for special securities encashed at Reserve Bank of India to finance loans and grants to Government of India, Cooley Loans, US embassy expenditures and loans and grants to Nepal. The amount of B also represents PL 480 deficit financing.

Note 2: During the 11 years ending 1966-67, PL 480 imports amounted to Rs 1,693 crores, repayments on PL 480 and allied debt Rs 245 crores. Consequently, special securities received into the US owned counterpart fund aggregated to Rs 1,938 crores. Rs. 1,379 crores of these special securities have been monetised and Rs 559 crores worth of them remain in the fund unutilised. From the cash received against special securities, Rs 1,195 crores financed loans and grants to Government of India and Rs 184 crores the US uses of PL 480 rupees, listed in Note 1 above. This added Rs 1,379 crores to monetary circulation.

Note 3: Created PL 480 moneys passed on to Government of India as loans and grants add to the monetary circulation via the central budget. Created PL 480 moneys passed on to the US embassy add to the monetary circulation independently of the central budget.

of the utmost urgency to subject PL 480 financial arrangements to an expert and dispassionate review. If this review should confirm our analysis, immediate action is called for to eliminate the inflationary provisions of PL 480 finance, if necessary, by an amending legislation in US Congress. Pending such legislation, which must take time, the galloping inflationary situation would justify resort to emergency measures to put a stop to PL 480 deficit financing at once.

As things are, there is little that the Government of India can be expected to do to correct the monetary impact of PL 480 finance. We have seen that, when the US embassy draws on the US-owned counterpart fund, equivalent inflation necessarily follows. When the Government of India receives PL 480 loans and grants, these receipts will be disbursed. If the Indian economy must be saved from the consequential inflation, there is no way of doing it other than, perhaps, to budget for an overall surplus of an amount equal to the drafts on this fund; i.e., to impound the proceeds of PL 480 loans and grants and, in addition, find through taxation or loans placed on the capital market (outside the banking system) enough funds to meet US uses of PL 480 rupees. This fiscal oddity does not merit much attention. The only solution to the problem is to eliminate the inflationary provisions of PL 480 financial operations.

The foregoing discussion suggests the means of doing this. First, the US-owned counterpart fund, from which PL 480 deficit financing ensues, should be prevented from coming into being. This may be done by placing PL 480 imports on a par with

imports against US Development Assistance Loans. Like the latter, PL 480 imports should be exchanged against long-term debt documents, instead of being paid for, outright, in created moneys.

Secondly, the annual payments on account of interest and amortisation on this debt should be both debited to revenues and these payments should be reserved for US uses, not held in potentially inflationary documents. Under the prevailing system of PL 480 finance, these payments, like the rest of PL 480 deposits, are invested in special securities and, therefore, get issued back into circulation via capital budget disbursements; so that, as and when the relative securities are encashed by the US embassy, at the RBI, equivalent expansion of money would take place. With PL 480 rupees not being generated any more, repayments on PL 480 debt may be all absorbed in current US uses.

Thirdly, pending the adoption of these reforms, the unutilised part of the US-owned counterpart fund, which amounted to Rs 559 crores on March 31, 1967, should be frozen forthwith, in order to extinguish a potential source of inflation. This end may be achieved by withdrawing from special securities the facility of their encashment on demand.

Fourthly, fresh additions to the US-owned counterpart fund, from current PL 480 imports, should be frozen, too. Otherwise, price inflation may pile up as massive food imports continued. India's mounting food shortages—PL 480 food imports have risen from 600,000 tonnes in 1955 to over 10 million ton-

TABLE III
A MODEL OF P.L. 480 FINANCIAL OPERATIONS

	(Rs. crores)												
	1 PL 480 imports	2 PL 480 debt with US Embassy	3 PL 480 gener- ated public debt with RBI	4 Total PL 480 generat- ed govt. debt (2C+ 3)	5 Final disbursements of PL 480 payments	6 Food subsi- dies (or ad- ditions to stocks)	7 Budget support (1+5A- 5B-6)	8 Primary expan- sion of money (3+6)	9 Grand total of PL 480 dis- burse- ments (7+5C)				
	2A	2B	2C		5A	5B	5C	5D					
I. Payments for PL 480 imports	150	150	150	150									
II. Retirement of special securities	...	100	60	40	100	60	20	20	100	150	...	...	150
III. Food subsidies (or additions to stocks)	...	...	...	...	...	...	...	...	...	80	100	100	100
IV. Interest and capital re-payments on PL 480 debt (II+VI-I)	...	10	...	10	...	...	...	...	...	5	-5	5	-5
V. I+II+III+IV	150	60	60	120	100	220	60	20	20	100	5	225	105
VI. Disbursement of unspent PL 480 deposits (special securities)	...	-60	36	-24	60	36	36	12	12	60	...	48	60
Total	150	...	96	96	160	256	96	32	32	160	5	273	165

nes currently—may be due to bad monsoons only marginally. More basically, they may be related to capital decay in agriculture, the result of the policies of "Planned" shifts of resources into uneconomic industries, including the so-called infrastructure undertakings. Evidence is lacking that basic changes may take place in these policies. The need for massive PL 480 food imports may, therefore, persist. This underlines the importance of immobilising, in the interest of price stability, all future payments for PL 480 imports.

How will the capital budget look like with these reforms? Table VI is an attempt to recast Table II (the capital budget of the past three years) on the assumption of PL 480 imports being on a par with DAL imports, so that PL 480 deficit financing is wholly eliminated. With the US-owned counterpart fund gone, the grand total of capital receipts would decline, in 1965-66, from Rs 2,231.38 crores to Rs 2,067.38 crores or by Rs 164 crores, the amount of the PL 480 generated public debt, passed on to the RBI; and the disbursements side of the capital budget would be less, too, by an equal amount. This reduction in RBI borrowing would correspondingly reduce total deficit financing, from Rs 261.96 crores to Rs 97.96 crores. The abandonment of PL 480 deficit financing would yield an overall surplus of Rs 105.00 crores in 1966-67 and of Rs 5.00 crores in 1967-68.

Mr Chester Bowles has revived the scheme, which he had suggested "a year ago", to establish an Indo-American Foundation for putting the US-owned counterpart fund "to constructive use". He would assign to the Foundation "some Rs 225 crores as a capital fund, the annual interest from it being used to further scientific education, economic research and development for the benefit of the Indian people".† If these interest payments are drawn from the revenue part of the central budget and the "capital fund" is left untouched, we may say that, to the extent of the capital fund, the US-owned counterpart fund would remain frozen, in effect. But it is important to apply some freezing arrangement to the rest (Rs 334 crores) of this counterpart fund, too.

The 1966 amendment to PL 480 provides that payments for PL 480 imports should be made wholly in dollars by 1971, by a phased programme of transition (from the present arrangement of payments in rupees) during the next five years. Payments in dollars would cancel special securities by an equal amount. Since inflation ensues from the encashment of special securities, it follows that, to the extent of such payments in dollars, PL 480

† Chester Bowles, *op.cit.*

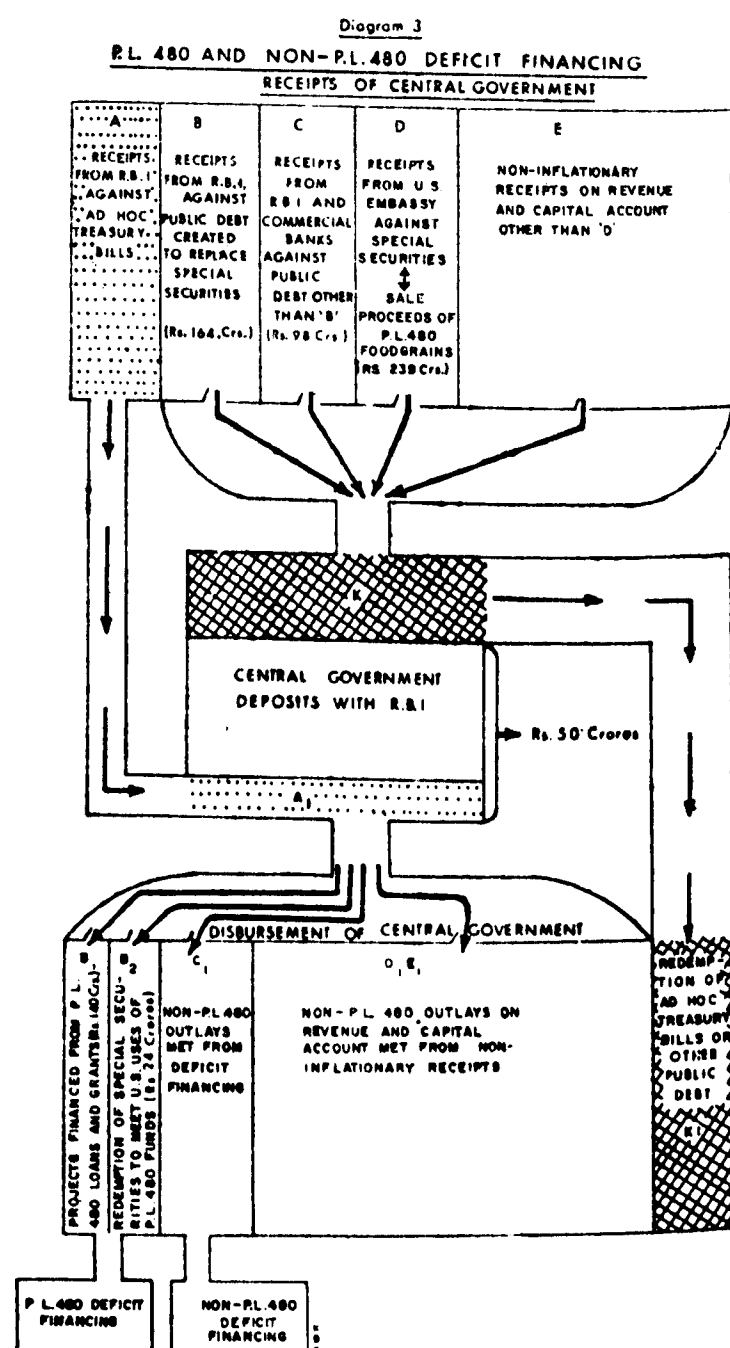
NOTES TO DIAGRAM 3.

Note 1: Figures in brackets relate to 1965-66.

Note 2: Rectangle A stands for ad hoc treasury bills created to replenish the depleted cash balances of government to their working balances level of Rs 50 crores. This is done in accordance with an arrangement of the Ministry of Finance with the Reserve Bank of India. The latter automatically takes over ad hoc treasury bills and credits an equivalent amount to central government deposits with it, in order to raise these deposits to their norm of Rs 50 crores. This operation takes place every Friday, before publication of Weekly Statement of RBI.

When, on the other hand, these deposits rise significantly above Rs 50 crores, and balancing disbursements may not be in sight in the following week, the excess amount of the deposits are utilised to cancel ad hoc treasury bills or other public debt. Decisions regarding such cancellations are taken by the Ministry of Finance and directives are issued (by telex, telegram or otherwise) to the Reserve Bank, as it is the ministry that is best posted with the programme of such disbursements. These decisions, too, are taken in due time prior to the publication of the Weekly Statements of Reserve Bank of India.

When the amount of ad hoc treasury bills grows unduly, they are "funded" into public debt of appropriate maturity and category.



Note 3: Under this arrangement—whereby central government deposits are maintained at their working balances level of Rs 50 crores, excess deposits being used to cancel government debt and any deficiencies being covered by the creation of ad hoc treasury bills—finance of disbursements by ad hoc treasury bills and cancellation of ad hocs by excess deposits is, clearly, a case of interim finance. This interim finance can throw no light whatever on the question of whether a particular scheme of financing is or is not inflationary. It is, therefore, futile to go over the rigmarole of debits and credits arising from the creation and cancellation of ad hocs in quest of an answer to this question, as has been the case, hitherto, in discussions on the monetary impact of PL 480 finance.

Note 4: For an answer to the question of whether a particular scheme of financing is or is not inflationary, we have necessarily to fall back on budget accounts, which specify the manner of raising the finance. This finance may be "tied" or "untied". Receipts represented by rectangle B are, for instance, "tied" to disbursements B1 and B2. As these latter disbursements are financed from created moneys, they are inflationary. Receipts represented by rectangles C and D are "untied". They provide general purpose budget support. It will be noted that C1 will be quantitatively equal to C and D+E will be quantitatively equal to D1E1.

finance would be non-inflationary. But payments in dollars imply the availability of equivalent disposable resources with the Government of India, an unrealistic assumption.

The amended PL 480, though it would eliminate inflation, has two limitations. First, to insist in outright payment in dollars is too drastic a measure, in the context of such acute scarcity of resources. We may not be able to find dollars or non-inflationary rupees to purchase PL 480 foodgrains. Secondly, much monetary damage may result between now and 1971 if steps are not taken to put out of action immediately the outstanding special securities. The amendment does not deal with this aspect of the matter.

It would appear, therefore, that the most practical way of eliminating inflation from PL 480 finance may be to place PL 480 imports on a par with DAL imports, instead of paying for them in created moneys. Once created moneys are permitted

to enter the scene, there would be no means of avoiding inflation. This measure must be accompanied by freezing the entire amount of the outstanding special securities, not a part of them alone.

Outside analysts of PL 480 finance are, today, faced with many data deficiencies. In view of the major importance, which PL 480 finance has assumed, there is urgent need to rectify this and to provide, with retrospective effect, all the statistics necessary for presenting a complete and satisfactory picture of PL 480 operations. In particular, we shall have information, as a regular and continuing series, on US dollar receipts and balances of the India Supply Mission for the purchase of PL 480 imports; on PL 480 food and non-food imports (both f.o.b. and c.i.f. values); on the total amounts and retirements of special securities; on PL 480 rupee debt holdings, with breakdowns, and the relative cash balances of the US embassy; on the disbursements, with breakdowns, of PL 480 rupees by

TABLE IV
P.L. 480 FINANCIAL OPERATIONS FROM 1956-57 TO 1966-67

(Rs crores)														
1 PL 480 imports	2 PL 480 debt with US Embassy			3 PL 480 generat- ed debt with RBI	4 Total PL 480 generat- ed govt. debt (2C+3)	5 Final disbursements of PL 480 payments				6 Food subsi- dies (or ad- ditions to stocks)	7 Budget support (1+5A +5B —6)	8 Expan- sion of money (3+6)	9 Grand total PL 480 dis- burse- ments (7+5C)	
	Special securi- ties	PL 480 loans	Total			Loans	Grants	US uses	Total					
														2A	2B	2C	5A	5B	5C	5D
I. Payments for PL 480 imports	1,693	1,693	...	1,693	...	1,693	...	...	...	...	...	1,693	...	1,693
II. Retired special securities	...	—1,380	879	—501	1,380	879	879	316	184	1,379	...	1,196	1,379	1,379
III. Food subsidies (or addi- tions to stocks)	...	...	...	...	...	...	...	...	...	...	100	—100	100	—100
IV. Interest and capi- tal repay- ments on PL 480 debt, TCM loans, DLF loans and Cooley loans (II+ VI—I)	...	245†	...	245	...	245	...	...	...	...	...	...	...	...
V. I+II+ III+IV	1,693	559	879	1,438	1,380	2,817	879	316	184	1,379	100	2,789	1,479	2,972
VI. Disburse- ment of unspent PL 480 deposits invested in special securities*	...	559	335	—224	559	335	335	112	112	559	...	447	559	559
Total	1,693	...	1,214	1,214	1,939	3,152	1,214	428	296	1,938	100	3,236	2,038	3,531

* These disbursements are based on the assumption of loans being 60 per cent of deposits and grants and US uses being 20 per cent each of deposits.

† This figure is derived as under from the rest of the relevant data, given in this Table. The gross total of special securities, i.e., the sum of retired special securities (row II) and the unspent PL 480 deposits (row VI), is equal to row V plus row IV. It follows that, subject to the effect of errors and omissions in the rest of the data, IV=II+VI—I.

Note: This table is based on data from Table I.

the US embassy; on the stock position of PL 480 foodgrains, in quantities and values; and on the profits or losses from state trading in PL 480 foodgrains.

Summary

The PL 480 imports are not foreign aid, any more than other imports. They are paid for in full by the Government of India. The aid element is in the concession that payments for these dollar imports are accepted in rupees. Even for effecting non-PL 480 payments, the government has been put to the necessity of supplementing ordinary budget resources by deficit financing, the amount of such financing during the 11 years ending 1966-67 being Rs 1,277 crores. It necessarily follows that the whole of the payments for PL 480 imports, Rs 1,695 crores during this 11-year period, represents RBI borrowing, i.e., created moneys.

The PL 480 imports are the exclusive property of the Government of India; and the rupee payments for the imports, the exclusive property of the US government. In terms of PL 480 agreements, these rupee payments are invested, "almost simultaneously", in special securities of the Government of India.

Thus, PL 480 imports give rise to, automatically, two rupee funds, technically called counterpart funds; an Indian-owned counterpart fund, being the proceeds, acquired by the Government of India, of the sales of PL 480 imports to the Indian public; and a US-owned counterpart fund, comprising the rupee payments received by the USA from the Government of India.

Both counterpart funds are drawn upon and disbursed into circulation. The Indian-owned counterpart fund is drawn upon in full. As on March 31, 1967, Rs 559 crores of the US-owned counterpart fund, or 29 per cent of the total, remained unspent. The Indian-owned counterpart fund provides general purpose budget support. On the other hand, the US-owned fund is utilised for specific purposes: it provides loans and grants to the Government of India, to finance identified developmental projects; Cooley loans to joint American and Indian firms; loans and grants to Nepal; and the rupee expenditures of the US embassy in India. As the Indian-owned fund comprises the sale proceeds of PL 480 imports, disbursements from this fund but restore into circulation moneys withdrawn from it. The net monetary impact of this operation is neutral.

It is different with drafts on the US-owned counterpart fund. As this fund comprises created moneys, disbursements from it would add to the monetary circulation. This end result is unaffected by the fact that, to begin with, this fund is held in special securities. These securities are converted back into

created moneys by the RBI, when it is time for disbursements from the fund.

The mechanics of this conversion back of special securities into created moneys merits close attention as it represents the crux of the phenomenon of inflation from PL 480 finance. When the US embassy demands cash for special securities, the RBI first replaces them by Treasury Bills or other public debt. This is necessary because special securities though encashable on demand, are non-negotiable documents. The RBI thereupon takes over this public debt and credits an equivalent amount to the "Central Government Deposits" with it; the liquid funds demanded by the US embassy are then made available to the embassy by debit to these deposits.

We have here a case of deficit financing, i.e., government disbursements—encashment of special securities, representing payments for PL 480 imports—being met by created moneys, raised by sales of public debt to the RBI. Since this deficit financing provides funds for PL 480 operations, it may be properly described as PL 480 deficit financing. Total deficit financing in any year, then, is the sum of PL 480 deficit financing and non-PL 480 deficit financing.

Conclusions

The following conclusions emerge from the foregoing discussion:

It is not correct to say that when the US embassy disburses the PL 480 rupees in its possession, it issues out but the sale proceeds of PL 480 imports. These rupees represent created moneys and their disbursements are inflationary.

During the past three years, inflation in India has ensued wholly from PL 480 deficit financing. In the absence of PL 480 deficit financing, we might have had budget surpluses and price stability, in place of heavy budget deficits and price acceleration of over 15 per cent per year.

Considering the critical inflationary situation, it is a matter of the utmost urgency to eliminate the inflationary provisions of PL 480 finance, if necessary, by an amending legislation in US Congress. As this may take time, we would be justified in adopting emergency measures to put a stop to PL 480 deficit financing at once.

So long as the prevailing arrangement of PL 480 finance continues, the Government of India is helpless in preventing inflation. To prevent inflation, we would have to balance US disbursements of PL 480 rupees by equivalent budget surpluses.

TABLE V
INDIAN OWNED AND U.S. OWNED COUNTERPART FUNDS, 1956-57 TO 1966-67

(Rs. crores)

	Indian owned fund				US owned fund				Total of both funds			
	1956-57 to 1964-65	1965-66	1966-67	Total	1956-57 to 1964-65	1965-66	1966-67	Total	1956-57 to 1964-65	1965-66	1966-67	Total
1. PL 480 imports	1,130	239	324	1,693	1,130	239	324	1,693	2,260	478	648	3,386
2. Interest and amortisation payments (3+5-1)	...	...	...	...	135	58	52	245	135	58	52	245
3. "Retirement" of special securities:	...	...	...	...	836	164	379	1,379	836	164	379	1,379
(a) For PL 480 loans	...	...	...	...	449	80	350	879	449	80	350	879
(b) For PL 480 grants	...	...	...	...	256	60	1	316	256	60	1	316
(c) For US uses	...	...	...	...	131	24	29	184	131	24	29	184
4. Total disbursements	1,130	239	324	1,693	836	164	379	1,379	1,965	403	703	3,072
5. Balance on March 31, 1967 (1+2-4)	...	...	...	...	429	133	-3	559	429	133	-3	559

Note: This table is based on data from Table I.

In the context of acute resources scarcities, this is a wholly unrealistic remedy.

The situation calls for four measures of reform:

- The US-owned counterpart fund, from which inflation ensues, must be prevented from coming into being. This may be achieved by treating US foodgrains as a loan, repayable on a long-term amortisation basis, instead of being paid for in created moneys.
- The annual repayments on account of PL 480 and allied debt should be debited to revenues and reserved for US uses, instead of being invested in potentially inflationary documents.
- Pending the adoption of these reforms, the outstanding special securities, held by the US embassy, should be frozen.
- If massive food imports should continue, current accruals of special securities should be frozen, too.

The proposal to assign Rs 225 crores from the US-owned

counterpart fund to an Indo-American Educational Foundation is a step in the right direction; this part of the fund would be, then, frozen, in effect, as the Foundation would use only interest accruals on the capital amount of the Foundation. But steps need to be taken to freeze the rest (Rs 334 crores) of this fund, too.

Though the 466 amendment to PL 480 (which requires payments for PL 480 imports in dollars after a transitional period of five years) would eliminate special securities and, therefore, inflation, it has two limitations. First, it is too drastic a measure. We may not be able to find the requisite amounts of dollars. Secondly, the amendment pays no attention to the need to freeze the outstanding special securities.

It would appear, therefore, that the most practical way of eliminating PL 480 inflation is to adopt the reforms indicated in the foregoing discussion and which the present writer has been pleading for since January, 1960.

In view of the monetary importance of PL 480 finance, fuller data of PL 480 operations should be made available.

TABLE VI
SUMMARY OF CAPITAL BUDGET ON THE ASSUMPTION OF P.L. 480 IMPORTS BEING LOANS

(Rs crores)

Receipts	1965-66 (Accounts)	1966-67 (R.E.)	1967-68 (B.E.)	Disbursements	1965-66 (Accounts)	1966-67 (R.E.)	1967-68 (B.E.)
1. Public debt raised in India:	170.10	-49.41	171.70	1. Social and development services	152.76	184.10	210.40
(a) Held by Reserve Bank and commercial banks	-24.80	-405.00	-5.00	2. Currency and mint	80.79	220.70	19.96
(i) PL 480 generated public debt	...	...	...	3. Miscellaneous:	242.34	674.58	542.53
(ii) Other public debt	-24.80	-405.00	-5.00	(a) Purchase and sales of foodgrains	-325.93	-166.50	-182.55
(b) Held by the market outside banks	194.90	355.59	176.70	(b) Transfer of loans, to cover PL 480 imports, to special development fund	239.20	324.00	285.00
2. Public debt raised outside India (including loans to cover PL 480 imports)	721.61	966.24	1,120.00	(c) Trading losses financed from ordinary revenues	-18.26	-18.29	-23.47
3. Special development fund (net):	-82.13	401.42	304.47	(d) Others	347.33	535.37	463.55
(a) Loans to cover PL 480 imports	239.20	324.00	285.00	4. Loans and advances	1,200.01	1,413.34	1,118.40
(b) Other loans and assistance	-321.33	77.42	19.47	5. Repayment of debt	254.29	354.48	453.94
4. Other items (net)	815.28	1,023.20	521.57	6. Others	137.19	31.26	5.55
5. Total capital receipts (1b+2+3+4)	1,649.66	2,746.45	2,122.04	7. Total disbursements (1+2+3+4+5+6)	2,067.38	2,815.94	2,350.78
6. Revenue surplus	319.76	174.49	232.84	8. Overall surplus	...	105.00	5.00
7. Overall deficit:	97.96	...	...				
(a) Financed by Treasury Bills and drafts on cash balances	122.76	...	...				
(b) Financed by borrowings against sale of public debt to Reserve Bank and commercial banks	-24.80	...	...				
Grand Total	2,067.38	2,920.94	2,355.78	Grand Total	2,067.38	2,920.94	2,355.78

Note: This table is based on Table II above, with adjustments called for by the assumption of PL 480 imports being loans.

Fundamentals of US Assistance to India Under PL 480

SAMUEL A. COSTANZO

EVEN WELL-INFORMED observers of the Indian economic scene are often confused by PL 480 transactions. It is easy to lose one's way in the tangle of legal and administrative provisions relating to PL 480 which is a complex law, and the procedures for implementing it are necessarily somewhat involved. Even the name can be confusing. Public Law 480 is officially designated as the "Agricultural Trade Development and Assistance Act of 1954", but it is also known by the short title of "Food for Peace", and sometimes "Food for Freedom".

Despite the complexities, there is nothing hidden or mysterious about PL 480. There are no secrets about PL 480 operations. Detailed information, including complete financial statements, are released periodically to the public and other information is available for the asking.

For a fundamental understanding of how PL 480 works, however, it is necessary to strip away much of the detail so that the basic elements of the programme stand out clearly. This paper will attempt to provide such a "bare bones" description. In the process of doing so it should also become clear that PL 480 is in no way inflationary. On the contrary, by providing massive amounts of food during periods of acute scarcity, PL 480 has had a stabilizing effect on the entire economy and has contributed importantly to the economic development and well-being of India.

Purposes of the Act

A basic purpose of PL 480, as declared in Section 2 of the Act is "to use the abundant agricultural productivity of the United States to combat hunger and malnutrition and to encourage economic development in the developing countries, with particular emphasis on assistance to those countries that are determined to improve their own agricultural production".

In order to accomplish this objective, Title I of PL 480 authorizes the United States President to sell agricultural commodities to friendly countries for dollars, on credit terms, or for foreign currencies. Since 1955, India has received nearly 50 million tons of foodgrains valued at \$3.1 billion and about \$500 million of cotton and other commodities under Title I of the Act.

In addition to the assistance under Title I, India has received as outright grants about \$400 million of foodstuffs under other titles of PL 480 for emergency and famine relief, child-feeding and other nutritional programmes, community development projects, etc., as well as \$58 million of agricultural commodities under Section 402 of PL 665 and small amounts under the C.C.C. Charter Act. Though important, these programmes are small in relation to Title I of PL 480 and for the most part they do not enter the Government of India's budget or affect the financial system. Having taken note of these related forms of assistance, the discussion in the remainder of this paper will be confined to Title I of PL 480.

Until recently, the PL 480 objective of assisting the developing countries was combined with the objective of helping the American farmer by disposing of surplus US farm production. As a result of an explosion in farm productivity after World War II, the American farmer began producing much more wheat and other commodities than could be consumed at home or sold abroad on commercial terms. Making surplus commodities available to developing countries on concessional terms not only helped these countries to develop but also helped protect the American farmer against a possible fall in agricultural prices.

Under these circumstances it was only natural that Title

Mr Samuel A. Costanzo is Financial Attache in the US embassy, New Delhi.

I commodities should be provided to India and other developing countries on extremely favourable terms. All of the Title I commodities provided to India through December 1966 were sold to the Government of India for rupees. Approximately 60 per cent of the rupees received from the Government of India in payment for these shipments were loaned (or earmarked for loan) back to the Government of India for 40 years at interest rates ranging from $\frac{1}{2}$ to four per cent, about 20 per cent were returned as outright grants and 20 per cent retained by the US government for its own uses and for so-called "Cooley" loans to private enterprise in India. (As will be shown later, only a small fraction of the funds available for US-use was, actually, spent by the US government. A large part was made available to the Government of India by investment in Government of India securities through the Reserve Bank of India.

With population growth outstripping food production over vast areas of the world and our own domestic consumption rising steadily, US stocks of surplus commodities have dwindled. Far from being a surplus disposal problem, wheat and other farm products have become the US's number one dollar export earner. This means that PL 480 is no longer a matter of shipping abroad food which would otherwise pile up uselessly in US storage bins. Instead, PL 480 shipments mean higher taxes for Americans and the allocation of additional resources to food production which could otherwise be used to meet domestic needs.

Inevitable Cycles

From time to time, of course, US food supplies will temporarily exceed requirements. Such cycles are inevitable in agriculture because of uncontrollable fluctuations in production. There should be no doubt, however, that a fundamental change took place in 1966 when President Johnson announced a 30 per cent increase in the acreage allotted to wheat production, the first such increase in over a decade. From that point on, PL 480 unquestionably became a real burden to the American economy.

In recognition of the changed situation Congress amended PL 480 at the end of 1966 to provide increased emphasis on adequate self-help performance by aid recipient countries and gradual transition over a five-year period from the sale of commodities for local currencies to sales on a long-term dollar loan basis. By 1971, therefore, any PL 480 assistance to India and other developing countries will have to be entirely on the basis of long-term loans repayable in dollars.

In the case of India, a start has already been made toward dollar repayable loans. Of PL 480 agreements totalling \$334 million signed so far this year, \$43 million was on a dollar loan basis. These loans are extended for 40 years with repayment of principal beginning only in the eleventh year. Interest is charged at a rate of one per cent per annum for the first 10 years and 2 $\frac{1}{2}$ per cent per annum thereafter.

In some respects dollar loans are more advantageous to the recipient country than sales for local currency. When sales are made for local currency, the recipient must pay the freight charges in foreign exchange and it must also permit the US government to convert a small part (presently about five per cent) of the local currency it receives into foreign exchange. For dollar loans, not only is there no immediate convertibility

requirement*, but the cost of freight when US vessels are used is also financed on a long-term basis**. This means that in the first 10 years the only payment required is interest at the rate of one per cent per annum, and that thereafter payments are spread over a period of 30 years.

On the other hand, once the freight and convertibility requirements have been met under local currency sales agreements the importing country has discharged its foreign exchange liability. In the case of dollar loans, however, the importing country must prepare to meet the full cost of food by transferring resources of equivalent value back to the United States, albeit over 40 years. To discharge such an obligation the recipient must see to it that the food imported provides a sufficient return in the form of increased productivity of its people to service the debt and interest.

* That recipients utilize PL 480 food in such a manner is, of course, a primary aim of the US government.

Financial Procedures

When food is provided on dollar loan terms the financial procedures are relatively simple. Food is shipped to India against the obligation of the Government of India to pay the United States in dollars according to a fixed amortization schedule. From that point onward the United States is out of the picture. The Government of India receives the food, sells it to consumers and disposes of the sales proceeds as it sees fit. Hopefully, the government's additional revenue would be available for increased developmental expenditures.

The procedure for sales against local currency is somewhat more complicated. As soon as it receives documentary evidence that the goods have been shipped the Government of India deposits rupees equivalent to the total cost of the goods to the account of US government at the Reserve Bank of India. However, the Reserve Bank automatically invests these funds in a special issue of Government of India securities, thus returning the funds immediately and automatically to the Government of India.

Up to this point, all that has happened is that the Government of India, in return for the food that has been shipped, has assumed a short-term, low interest, rupee obligation to the United States. (The "special securities" are redeemable on demand and bear interest at the rate of 1 $\frac{1}{2}$ per cent per annum.) There has been no change in the cash position of the government's budget. Payments to the US government have been matched by the simultaneous receipt of an equivalent amount through Reserve Bank purchase of Government of India securities.

Since there has been no change in the cash position of the budget, it follows that there has been no change in the money supply, no effect on financial markets and no effect on the Indian economy other than those based on the expectation that more food will soon be available.

It also follows that the source of the Government of India funds used to pay the US government is irrelevant. It matters not whether these funds came from current tax receipts or from domestic borrowing, because whatever the source they are immediately returned and remain freely usable.

In any case, money being fungible it is not possible to determine the real source. To draw conclusions from the account-

- * The law provides for an initial payment of five per cent in convertible currency where practicable. This provision has been waived for India in recognition of its acute foreign exchange problem.
- ** There is a requirement that 50 per cent of the commodities be shipped in US vessels. Since US freight rates are higher than the prevailing world rates, the importing country, e.g., India, is subsequently reimbursed in dollars for the additional cost resulting from the use of US ships.

ing mechanisms lying behind the payment from the Government of India to the US special securities is to mistake form for substance.

Once the food has arrived in India it can be sold to consumers and the proceeds of these sales can be used by the Government of India in any manner it chooses. As in the case of dollar loans, the US government has no part in these transactions.

The real difference between dollar loans and sales for local currency comes in the treatment of the rupee funds deposited to the account of the US government at the Reserve Bank and invested in special securities of the Government of India. The uses to which these funds can be put are spelled out in the PL 480 agreements between the United States and India. Details of these uses need not concern us here. Basically, a large part averaging about 80 per cent (87 per cent in recent agreements) is returned to the Government of India as economic development loans or grants, about seven per cent (five per cent recently) is loaned to private enterprise in India and the rest is retained for US government use.

When funds are drawn for any of these purposes the US embassy does so by simply making out a cheque on its Reserve Bank account. These cheques normally take two to three days to clear at the Reserve Bank. Once a month the embassy writes cheques for Rs 20 to 30 million which it deposits in current accounts in commercial banks in India. Thousands of smaller cheques for various embassy expenditures are then written each month against the commercial bank accounts. This saves the Reserve Bank the trouble of processing numerous small cheques. For large payments, such as the Rs 350-crore PL 480 loan to the Government of India of last March, cheques are written directly on the Reserve Bank account.

Just as deposits in the US account result in automatic and simultaneous investment in special securities, withdrawals result in the simultaneous redemption of special securities. In other words, the Government of India must provide the means by which the Reserve Bank can honour the cheques drawn by the US government.

No Problem

This is no problem for the 80 per cent (more recently 87 per cent) of the funds which are returned to the Government of India as loans and grants. In this case, the US government itself provides the means whereby the Government of India can redeem its special securities.

Since the loans and grants to the Government of India are earmarked for use on specified projects, it may be difficult to understand how these funds could also be available to redeem special securities. However, it should be noted that the projects and programme financed by the loans and grants are of such high priority that the Government of India would undoubtedly have undertaken them with its own resources had they been sufficient for the purpose. The sale of PL 480 commodities to the public makes the necessary revenue available and the subsequent loan merely confirms that the revenue is being used for worthy development objectives.

Financially, therefore, the net result of these transactions is simply to change the Government of India's liability to the US Government from a demand liability at 1 $\frac{1}{2}$ per cent interest (special securities) to a 40-year loan at interest rates which

have varied from 3½ per cent to four per cent or, in the case of grants, to extinguish the liability altogether.

As in the case of the initial deposit into the US account, there is no change in the cash position of the Government of India's budget, no change in money supply and no real economic effect whatsoever. Similarly, it is pointless to debate the source of the funds used by the Government of India to redeem the special securities, because a determination of the source in any real sense is impossible.

When the US draws on its account for payments to third parties, either for loans to private enterprise or to meet embassy expenses, the situation is somewhat different. In this case, the redemption of special securities requires a net cash outlay by the Government of India. Unless this outlay together with all other cash outlays of the government are covered by current budget receipts or by borrowing based on real private savings the result could be inflationary.

But if inflationary financing takes place it can hardly be blamed on US spending of PL 480 funds.

In the first place, the US embassy provides the Ministry of Finance with estimates of future drawings from special securities and the Ministry takes these estimates into account in preparing the government's budget. In fact, these estimates become an integral part of the budget just as all other cash outlays. Like all other budgeted outlays, the US estimates are revised at regular intervals in consultation with the Ministry of Finance and on at least one occasion expenditures were deferred in order to keep them within the original estimate.

Secondly, these drawings account for a very small fraction of the Government of India's budget. In the current year, for example, the total will be about Rs 55 crores out of a budget of over Rs 5,000 crores, i.e., about one per cent of the total budget. One may rest assured that any deviation in US expenditures from the budgetary figure will be infinitesimal by comparison to deviations elsewhere in the budget.

Advancement of Economy

Finally, as against the US expenditure of some Rs 55 crores this year the United States is contributing food which, although it is currently being sold by the government at a loss, should yield revenue of the order of Rs 250 crores. Thus, the United States is contributing to the budget several times as much as it is removing for its own use. Furthermore, much of the US expenditure is directed toward the advancement of the Indian economy and other endeavours of mutual interest to the two governments.

There is one final complication in the financial procedures which should be noted. Namely, that the sale of PL 480 commodities is not the only source of rupees for the US government, and that these other rupees are also invested in the special securities account where they become commingled with PL 480 funds.

Till September 30, 1967, the US government had received a cumulative total of Rs 322 crores* from these other sources. Virtually all of these funds were derived from the Government of India in the form of interest and principal repayments on PL 480 loans, interest and principal on certain dollar loans of the former US Development Loan Fund (DLF) which were payable in rupees, and interest paid on the special securities. The only other significant source was the receipt of about Rs 13 crores of interest and principal payments on Cooley loans to private enterprise in India.

Since virtually all of these additional deposits into the

special securities account come from the Government of India itself, the effect is similar to that of the initial payment for PL 480 shipments. The Government of India's payments are returned to it automatically and simultaneously through investment in special securities. Once again there is no change in the cash position of the budget, no change in money supply and no real impact on the economy whatsoever. Instead of creating a rupee liability to the United States, however, in this case rupee liabilities are extinguished through repayment of PL 480 and DLF loans.

Statistical Summary

At this point it may be useful to recapitulate in tabular form the rather intricate network of rupee transactions discussed above.

(Rs. crores)				
	Allocation of receipts from commodities sale of PL 480	Expenditures	Balances held by US Govt.	
	(% of total)	(1)	(2)	(3)
1. Loans and grants to Govt. of India	(79.5)	1,456	1,204	252
2. Loans to private enterprise	(6.6)	121	65	56
3. US govt. uses	(13.9)	254	140	114
4. Total	(100.0)	1,831	1,409	422
5. Other rupee receipts of US government				322
6. Total rupee balances of US government				744

The total amount paid by the Government of India for PL 480 commodities since the beginning of the programme in 1955, Rs 1,831 crores, appears in the fourth line. The first column shows the major purposes for which these funds are allocated, the second column shows the actual expenditure in each category, and the third column the amounts remaining in the possession of the US government and the uses for which these balances are destined. Since Rs 1,409 crores of the Rs 1,831 crores received have been expended thus far, Rs 422 crores remain in the US accounts. In addition, however, Rs 322 crores have accrued to the US government from other sources (line 5).

OTHER RUPEE RECEIPTS OF THE US GOVERNMENT

(In crores of rupees)	
1. PL 480 receipts	89
a. Principal and interest receipts from PL 480 loans to Government of India	76
b. Principal and interest receipts from Cooley loans to private enterprise	13
2. Non-PL 480 receipts	232
a. Principal and interest receipts from DLF loans to Government of India	157
b. Interest earned on US deposits	69
c. Sale of agricultural commodities under C.C.C. Charter Act	3
d. Misc. recoveries and refunds	2
3. Total	322

Note: Details do not add to total because of rounding.

* This figure does not include Rs 31 crores received from the sale of wheat and cotton under Section 402 of PL 665 between 1955 and 1958. These funds were used to finance development projects mutually agreed between the two governments.

bringing the total rupee balances of the US government as on September 30, to Rs 744 crores (line 6).

The other rupee receipts shown in the fifth line can be broken down into two types: those which are subject to the legal provisions of PL 480 and those governed by other legislation. The table on p. xiv gives the details.

Besides being subject to different legal requirements, another major distinction between PL 480 and non-PL 480 funds is the manner in which their use affects the US government's budget. When PL 480 rupees are expended by US agencies, the appropriated dollars which they must use (with few exceptions) to acquire rupees from the US treasury are credited to the account of the Commodity Credit Corporation (C.C.C.), the US government agency which buys and sells agricultural commodities.

Dollars used to buy non-PL 480 rupees, on the other hand, revert to miscellaneous receipts of the treasury where they become available for general budgetary purposes. In expending rupees, the US government gives first priority to PL 480 rupees. Since these have been more than adequate to meet US needs, no use has been made of non-PL 480 rupees.

The data above present a complete picture of US rupee transactions except for the details of the Rs 140 crores of US uses. These US-use expenditures are shown in the following table:

U.S.-USE EXPENDITURES

January 1, 1956 through September 30, 1967

(In crores of rupees)

I. Expenditure of US embassy, total	61.34
1. Foreign Buildings Operations (FBO)	4.53
2. Educational Exchange Programme	9.45
3. Agricultural programmes	6.17
4. Trade fairs and other commercial activities	1.85
5. Other administrative and programme expenditures	39.34
II. Expenditure of US AID Mission	7.39
III. Expenditure of US Information Service	20.17
IV. Aid to third countries, total	37.69
1. Nepal	35.50
2. Burma	2.18
V. Conversion into foreign currencies, total	13.00
1. For agricultural market development	5.66
2. For educational exchange programmes	5.10
3. For sale to US tourists	0.05
4. For sale to US citizens and foundations	2.18
VI. Total US-use expenditure	139.59

Is PL 480 Inflationary?

The answer to this question is clearly negative. Inflation of the general price level occurs when the aggregate demand for goods and services in the economy exceeds the aggregate supply of goods and services.

Let us consider the supply side of the equation first. There can be no doubt that PL 480 increases the supply of goods avail-

able for distribution in the economy. The supply of PL 480 commodities reaching the market in a given period of time will naturally fluctuate in accordance with shipping schedules, port conditions, the speed of internal distribution and the government's decisions regarding the size of stocks it wishes to retain. Since no appreciable stocks have been accumulated thus far, however, it is reasonable to assume that virtually all of the commodities supplied have been made available to consumers though the rate of flow has naturally fluctuated.

In the short run, total market supplies may increase by even more than the amount of PL 480 supplies because of the impact of PL 480 on hoarding. By dampening price rises and

produce more...
export more...
earn more
foreign exchange...

Foreign exchange is the backbone of a nation's economy. We need it today more than ever.

You are part of the economy. Produce more to earn more. And export more to bring more foreign exchange for the country—an achievement you will be proud of.

Since 1951, the country has increased industrial production three-fold. It can do better—obviously with your efforts.

Whether you are a manufacturer, trader, importer or exporter, PNB can help you.

PUNJAB NATIONAL BANK

PR-PNB-477-4

the expectation of price rises, PL 480 has undoubtedly assisted a great deal in reducing hoarding during the recent periods of acute food shortage in certain parts of India.

To determine whether PL 480 is inflationary we now have to answer the question of whether the financial transactions accompanying PL 480 have resulted in an expansion of aggregate demand equal to or greater than the increased availability of supplies resulting from PL 480.

We have already seen from the preceding discussion that PL 480 financial procedures have no effect on money supply and financial markets of India. With money supply unaffected, the only way that an increase in aggregate demand could become effective is for the existing stock of money to circulate more rapidly, thus generating higher money incomes. Such changes in the velocity of circulation of money often take place through the banking system and other financial markets, but since PL 480 has not affected financial markets that possibility can be ruled out.

A second way in which money incomes and aggregate demand could be expanded without a change in money supply is through individuals and firms reducing their holdings of cash balances. Such reductions in money holdings normally take place when there is an expectation of faster price rises. The arrival of PL 480 supplies, however, would have the opposite influence. By dampening inflationary expectations in the critical food sector, PL 480 would tend to slow-down the velocity of circulation of money. Traders, for example, would have less incentive to reduce their money holdings in order to acquire additional stocks of foods.

Redistribution of Income

Aggregate demand could also be expanded through a redistribution of income from those who save more to those who save less. But although PL 480 does tend to redistribute income, the redistribution seems to go in the opposite direction, i.e., from spenders to savers. Urban and industrial classes have higher real incomes both because food prices have been suppressed as a consequence of PL 480 and because government development outlays have been expanded by PL 480. Rural classes have lower real incomes because agricultural prices have not increased as much. Since urban and industrial groups tend to save a larger proportion of the increment in their incomes than the rural classes, national savings will be higher and inflationary pressures less acute.

These shifts in income flows are of fundamental importance in understanding the basic economic impact of PL 480. The key elements are as follows:

- 1 Instead of paying higher prices to domestic farmers for the limited domestic food supply, urban dwellers buy imported PL 480 food from the government at lower prices.
- 2 With revenue from the sale of food the government can expand developmental expenditure, mostly in the industrial sector.
- 3 Urban and industrial groups now have:
 - a) more food at lower prices,
 - b) more jobs,
 - c) more money to spend on other goods or to save.
- 4 Within the urban and industrial groups, there will be less inclination to press for higher wages, dearness allowances,

etc., and hence a shift of income towards business firms which will tend to save more and hold down their sales prices. This will reinforce the tendency towards more saving and industrial investment while partially offsetting the tendency for non-food prices to rise relative to food prices.

- 5 Rural groups now have relatively less money to spend and save.
- 6 Since urban and industrial groups tend to use a larger proportion of their incomes for non-food consumption and saving than do the rural classes, the economy as a whole will have:
 - a) a decline in food prices relative to non-food prices,
 - b) higher savings.

With greater supplies from PL 480 imports and no increase in aggregate demand, it seems quite clear that PL 480 has tended to restrain the general price level. In fact, this stabilizing influence has been particularly strong because of the critical nature of the principal commodity supplied—food.

Pervasive Influence

Because consumption of foodgrains accounts for about one-fourth of total domestic expenditures in a normal year, and a much larger proportion of consumers' expenditure, changes in supply and demand for foodgrains have a pervasive influence on the economy—even in normal times. In the acute scarcity conditions of the last few years, its importance has been magnified even more. This means that the effects of PL 480 on hoarding, price expectations and income distribution, as outlined above, have been much more powerful and influential than would have been the case for commodities of lesser importance.

The PL 480, therefore, has been an especially effective anti-inflationary force—so effective, in fact, that replacing its fiscal and economic impact as India becomes increasingly self-sufficient in foodgrains should be a major concern of economic policy makers. As increased domestic food production replaces PL 480 imports, money which is now flowing to the government in payment for PL 480 food will go to Indian farmers and traders instead. If deficit financing is to be avoided, the Government of India will have to either raise taxes, reduce expenditures, or both. Furthermore, unless taxes on the agricultural sector fill most of the gap, these fiscal adjustments will have to be substantially greater than the Rs 200 to 250 crores of revenue provided annually by PL 480 over the last few years because the income and price effects outlined above will be reversed.

In other words, simply replacing PL 480 by domestic sources of finance is not likely to compensate entirely for the powerful anti-inflationary impact of PL 480. As the Indian agricultural revolution gains momentum, more attention should be devoted to this important fiscal problem.

ATTENTION SUBSCRIBERS

Non-Receipt of Copies

Subscribers are requested to intimate promptly non-receipt of copies of EASTERN ECONOMIST; otherwise it may not be possible to replace missing copies. While corresponding with us, please quote your subscription number.

THE RIGHT KIND OF CLOTH/

**J.C.
FABRICS**

SPECIALITIES :

SUITINGS	ROLLER &
SHIRTINGS	SCREEN PRINTS
LENOS	TAPESTRIES
POPLINS	DHOTIES
TOWELS	SAREES
ETC. ETC.	



Jyajeena
COTTON
MILLS, LTD.
BIRLANAGAR (M.P.)

JL

Xm2, N42

N67.49.18-21

93799

**To Plug The Drain Of Foreign Exchange
*use***

RAYON - GRADE DISSOLVING PULP

based on Kerala Bamboo

**produced and marketed
by**

**THE GWALIOR RAYON SILK MFG. (WVG.) CO., LTD.,
(Pulp Division)**

Birlakootam—Kozhikode



Gram: 'WOODPULP', Calicut.

Phone: 3971-74

Mg. Agts: Birla (Gwalior) Pte Ltd, Calcutta

Regd. Office: Birlagram, Nagda (M.P.)