

EASTERN ECONOMIST 8

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FEBRUARY 23, 1968

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PM collects shells

Port Blair, Feb. 6 (PTD)—Prime Minister Indira Gandhi today took time off during her four-hour visit to Car Nicobar Islands, 120 miles from here, to collect shells in beach.



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EASTERN ECONOMIST

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For Whom the Whistle Blows

IN HIS address to a joint sitting of the two houses of Parliament on the first day of the Budget Session now in progress, the President emphatically stated that the "foremost task" before the government lay "in imparting a new dynamism to the economy which is recovering from the severe setbacks suffered during the last two years". At least on one pair of ears in the central cabinet this exhortation seems to have been wasted. Whatever other merits the Railway Minister may claim for the budget he presented in the Lok Sabha this Monday, Mr C. M. Poonacha, we imagine, would not venture to suggest that it is a contribution to the government playing a dynamic role in assisting economic recovery in the nation. He has pleaded that the Railways are in the red partly because of the recession which has affected the growth of goods traffic and partly because of the increasing cost of men and materials due to causes which are not within the control of his administration. He therefore wants the public to accept the proposition that the Railways will not be able to pay their way without periodically—perhaps annually—increasing fares and freights.

The implications of this position are far more unsatisfactory and disturbing than the specific increases in fares and freights, designed to increase receipts by Rs 28 crores, which Mr Poonacha has proposed for the budget year 1968-69. For, what the Railway Minister's contention amounts to is simply that the Railways are not even inclined to think in terms of the gains and dividends that any sound commercial enterprise should normally expect to earn through improving its efficiency and increasing the productivity of its men and management. Indeed, there is not even a stray sentence in the Railway Minister's budget speech which takes a hopeful view of the Railways' prospects of stepping up operational efficiency to the extent needed to rescue the railway administration from the disgraceful necessity of matching its charges solely to its costs without any consideration of the quality of the services rendered. It should not be forgotten, if inflation is the father of the ills our economy suffers from, low productivity often springing from sheer inefficiency of management is their mother. Mr Poonacha cannot therefore be permitted to get away with cursing the father without mentioning the culpability of the mother. The fact is that, after a hectic period of expansion when cost considerations were subordinated to the over-riding need for more physical capacity for moving traffic, the Railways have now entered a phase where new attitudes and skills of management are needed to make them a rewarding commercial enterprise. The indications are that the Railways do not seem to have either the organisation or the men who can deliver the goods in this sense. What is needed now is a ruthless organiser and rationaliser who would ensure that the men and materials which the Railways use and which are becoming more and more expensive day by day are used with the greatest economy and in the most profitable manner.

The Railway Minister referred to the problem of unremunerative branch lines. He pleaded for the understanding and support of Parliament and state governments in his plans to close them down. We urge that these should be ungrudgingly extended to him, if only because this is the first indication we have from the railway administration that it is trying to take something like a total view of the transport picture and co-ordinate railway operations to the realities of the new situations created by the progress in road transport. In our view, this very necessary co-ordination should be carried much beyond the closing down of obviously infra-marginal branch lines. It is possible that the Railways may be losing to road transport over a much larger area of its operations than is immediately visible—in which case a prompt and strict scrutiny of all the suspected segments of these operations may well be a prime condition of a programme of improved railway productivity.

Wanted: A Budget to Boost Exports

IN HIS budget speech last year, Mr Morarji Desai, union Finance Minister, expressed great concern at the fact that the momentum in export earnings, which was witnessed in the early years of the third Plan, had not been sustained. He said that the performance of exports in 1966-67 had been "particularly disappointing". Nevertheless, his last budget contained no positive incentives for export promotion apart from a modest reduction in the export duties especially on jute goods.

Our exports last year showed some improvement; the total for the first eleven months of 1967 was \$1,472 million as compared to \$1,440 million in the same period of 1966. But progress of this order is wholly inadequate in the context of our massive requirements of imports and the colossal burden of foreign debt. Clearly, then, our rate of growth in exports has to be on a bigger scale if the economy is to expand rapidly.

While presenting his budget, this year, therefore, the Finance Minister has to devote special attention to measures which may give a big boost to exports. The reduction in export duties announced recently has been helpful but only to a limited extent. The tea industry, for instance, feels that there has been no relief at all on nearly 85 per cent of the tea exported from our country; and on the remaining 15 per cent, the relief in export duty is only marginal. The jute industry also feels that the relief from export duty has not been adequate to compete effectively, especially in sacking. The Finance Minister, therefore, should look afresh at the export duties not merely on tea and jute but also on other commodities and try to give substantial relief. This will, of course, erode the exchequer to some extent but then no developing country can afford to look upon export duties as a permanent and substantial source of revenue.

Reduction or removal of export duties is only one aspect of the vital problem of export promotion. It is equally important to provide exporters with some financial incentives in order to encourage them to sell their goods in the distant and difficult markets of the world in preference to the vast home market. Before the devaluation of the rupee in June 1966, our exporters received a number of incentives in various forms such as rebate in income-tax, drawback of customs duties, refund of excise duty, cash assistance, tax credit certificates and import entitlement. Most of these schemes were abolished immediately after devaluation. However, the industry and trade feel that without the revival of these incentives, it will not be possible for them to compete successfully in the international markets. It is significant that even a traditional industry such as tea has pleaded for the introduction of tax credit certificates, irrespective of the prices at which tea is exported.

The Finance Minister should consider to what extent he will be able to concede the demand for the revival of those incentives which were abolished in June 1966. The very fact that such requests are being re-

peatedly made by the representative bodies of trade and industry shows to what extent our goods continue to be uncompetitive in world markets even after a drastic devaluation. We should remember, however, that even developed countries have given powerful incentives to promote exports in the past and they continue to do so even at present. For example, Canada gives subsidies on coal exports, Switzerland on certain agricultural products and the USA on wheat and cotton. The USA and France also grant indirect cash subsidies for some primary products.

It will therefore be nothing unusual if a developing country such as India, confronted with an acute shortage of foreign exchange, is compelled to resort to subsidies to promote exports. But it is in our interest to see that such devices are given for a specific period and for specific industries. What is more important, however, is to ensure that the economy as a whole revives rapidly and vigorously and that, both in agriculture and industry, a climate is created for a continuous and substantial increase in production. The government should realise that its traditional approach to export promotion by curbing consumption is not only unworkable but, ultimately, will hurt export itself. The devaluation of the pound sterling and other currencies has created difficult problems for our export industries; and it is all the more important therefore for the Finance Minister to provide some positive incentives to exporters.

As Mr C. A. Pitts, President of the Associated Chambers of Commerce and Industry of India, recently observed, "the prime problem of the cost of production is stubborn and difficult to resolve. It will yield in time as efficiencies increase, as the scale of production increases, as modern machinery and modern technology invade all sectors of industry, as workers become better trained, more skilled and more co-operative in the matter of productivity schemes, but the short-term palliative can only be in money terms—by withdrawing from the cost of export production all taxes, excises and cesses and in addition, but on a selective basis, giving extra payments preferably by concealed tax bonuses where these are necessary. There have been studies galore by specialist bodies and innumerable proposals made to government. But there is a widespread complaint that decision making within government is exceedingly slow and in the export field time lost is business lost and business lost is very difficult to recover. I would plead therefore for a much greater sense of urgency in this making of decisions affecting export business. Even a refusal given quickly is sometimes much more helpful than a long interval of doubt and indecision. The devaluations make it more necessary than ever not only that government should watch the export situation more closely but that it should act boldly and decisively as soon as it is evident that action is necessary".

The seminars recently held at Madras, Bombay, and elsewhere have also made a number of specific sugges-

tions for export promotion. While action on their recommendations has to be taken by a number of ministries, it is mainly the responsibility of the Ministry of Finance to adopt suitable measures to enthuse our businessmen about exports.

It is not known to what extent the UNCTAD session will succeed in creating a better climate for the export of developing countries. Even if the conference

Credit Expansion and Economic Growth

WITH THE announcement by the Reserve Bank of India (RBI) about a further liberalisation of credit facilities, made on January 29, after a meeting between the Governor, Mr L. K. Jha, and leading bankers, there can no longer be room for complaint that industry and trade have been paralysed due to the lack of bank finance in adequate volume. There was really no provocation for the new move of the monetary authorities as the developments in the current busy season so far have belied earlier expectations and there has been no pressure on the money market which would necessitate large-scale borrowing by member banks from the lender of the last resort. Even though three months of the 1967-68 busy season have passed by, it has not been necessary to take advantage of the liberal rediscounting facilities provided by the RBI as on January 26 borrowings amounted only to Rs 3.28 crores. What is really significant is the fact that during the three months under reference borrowings were actually lower by Rs 28 lakhs against an increase of Rs 18.76 crores in the corresponding period in 1966-67. Member banks are in an extremely comfortable position as the net deposits have risen by about Rs 117 crores between October 27, 1967, and January 26, 1968, against only Rs 49 crores in the same period during the previous season. There has also been no aggressive demand for funds as advances had risen by only Rs 187 crores against Rs 258 crores previously. Thus it has been necessary to reduce investments by only Rs 99 crores against as much as Rs 198 crores on the former occasion. Cash balances have been utilised only to some extent in spite of the fact that they were at a much higher level.

Even experienced bankers have not been able to explain why there has been no assertion of seasonal forces even with a higher level of agricultural production and the expectations of a revival in activity in the consumer goods industries. At one stage it was pointed out that the sugar industry would require large assistance while the textile industry will have a problem of financing its purchases of raw cotton. The sugar mills have, however, not made any heavy demands on the banking system as the early releases of sugar for free sales have been a helpful factor while the decision of the Indian Cotton Mills Federation to regulate purchases of cotton by member mills might result in smaller expansion of credit against cotton stocks especially as there has been latterly a downward trend in prices. It has even been stated that the increase in

is able to bring about a further reduction in tariffs and removal of non-tariff barriers, it is only by improving the competitive capacity of our goods that we can win the battle of export promotion. In the coming budget therefore the Finance Minister should not merely provide some relief here and there for a few industries but should adopt such proposals as will give a strong fillip to export promotion and import substitution.

advances would have been less pronounced had not the State Bank of India been obliged to advance large amounts to the Food Corporation of India and other agencies for pushing through procurement purchases.

There is, therefore, curiosity to know whether a new trend in deposits has emerged and whether at all there will be a squeeze in the money market in the next few weeks. In some quarters it is expected that there will be a bunching of cotton imports at a time when the indigenous crop will start arriving in large volume and it would be necessary to help the textile industry liberally for replenishing the stocks of raw materials. It is also anticipated that there will be heavy tax payments in the first week of March. But even assuming there will also be an increase in sugar stocks between now and at the end of next month by six lakh tonnes and cotton purchases will require additionally Rs 125 crores, the increase in advances may not be more than Rs 200 crores. This would mean that member banks may have to borrow from the central banking institution only about Rs 150 to 175 crores. If the fresh additions to deposits prove to be sizable, it may actually happen that the rediscounting facilities will not be used to the extent hoped for earlier.

The absence of a strident growth in advances may be due to the fall in prices of many commodities in the past few months. It may also be due to the anxiety of agro-based industries to effect their purchases on a phased and advantageous basis. It will be worthwhile to find out whether new forces would be operating and it would be necessary for the National Credit Council which has been newly constituted to reorient its policies with a view to making the new credit policy really effective.

As stated earlier the monetary authorities cannot now be accused of being unresponsive. Mr Jha has taken the initiative to cheapen credit by making available re-finance to other priority sectors, small-scale industries and those industries which helped to increase the availability of agricultural inputs. Earlier the preferential rediscount rate of 4½ per cent was available for only advances against export bills, pre-shipment credit and the like. It had been earlier stipulated that advances should be made for this purpose at 8 per cent. It has now been stated that the ceiling would be reduced to 7½ per cent. No ceiling has been fixed for other advances but bankers have been asked to reduce their lending rates so that the process of economic recovery could be hastened. Bankers have welcomed the new announce-

ment though it is not clear to what extent these facilities will be helpful and the mere availability of the cheaper refinance for short periods will encourage borrowers to embark on new ventures. They also agreed that the exclusion of advances for priority purposes for computing the net liquidity ratio will be useful for securing funds from the central banking institution at the bank rate for helping borrowers in the non-priority sectors. Mr Jha has actually stated that the additional funds will be made available at the bank rate for limited periods and the penal rate will be imposed only when it was felt that the expansion of credit has assumed unhealthy proportions.

There is no danger of any misuse of the liberalised credit measures as there is a feeling in knowledgeable circles that it will take a long time for the indirect beneficial effects of credit expansion on an orthodox basis to be reflected in a higher level of economic activity. What is needed according to them is an intelligent stimulation of demand for producer and capital goods with larger investment outlay in the public and private

Tyres and Tubes in Plenty

THE UNION government announced recently the lifting of the ban on the licensing of new tyre units and the expansion of the existing ones in order to pave the way for the increased production of automobile tyres and tubes to meet the growing demand of the automobile industry as well as the replacement market. The immediate provocation, however, was the prevailing shortage in the market which was essentially due to a strike for nearly six months in the unit of a major tyre manufacturer in the country. The government has proposed to entertain new applicants who may undertake to export 10 per cent of their production. Preference is also likely to be given to existing manufacturers whose supplies to automobile producers have a good record, whose export performance has been satisfactory and who have fully implemented their licensed schemes.

As has been indicated above, the shortage in the market was essentially due to the strike in a major unit where the output during 1967 was less than 50 per cent of its total capacity. The unit did not function from March 1967 up to the middle of May 1967 and the strike again broke out in October 1967 and has still not been resolved. The dislocation in supplies thus caused has only highlighted the precarious equilibrium between production and demand. The total output of the eight units belonging to the seven companies established in the country comes to around 3.3 million tyres and tubes, which is however sufficient in the ordinary course to take care of current requirements provided the supply lines are in order. Dunlop is the single largest producer with a capacity of nearly 1.1 million tyres and tubes in its two units. This is followed by Firestone, which produces nearly 672,000 tyres and tubes a year. The third in importance is Ceat Tyres, with an annual output of 450,000 numbers. Goodyear and

sectors, in the former particularly. The engineering industries are still passing through a difficult period while there are reports about the accumulation of stocks in the cement industry. The steel units have not been able to dispose of current production while large surpluses will emerge in some petroleum products when the newly created refining capacity begins to be fully used. It has, therefore, been suggested that side by side with a cheapening of credit facilities and liberal expansion, the central government should not hesitate to step up development expenditure in a manner which would lead to the best use of available physical resources. It is only to be hoped that the forthcoming budget for 1968-69 will contain proposals which will be able to combat effectively recessionary forces and bring about a revival in economic activity. The Deputy Prime Minister, Mr Morarji Desai, has a special responsibility and it should not be said of him that he acted unsympathetically and missed a valuable opportunity of giving the much-needed boost to the economy by rationalising tax structure and by increasing plan outlay if need be through productive deficit finance.

Madras Rubber produce around 310,000 and 360,000 respectively. Then there are two comparatively small units—Premier Tyres and Inchek Tyres—producing around 240,000 and 180,000 numbers respectively. The present pattern of production, therefore, does indicate the significant role played by the large producers.

The union government envisages an additional licensing of around one million to 1.5 million tyres and tubes in the near future so that by 1971-72 a capacity of one million tyres is added to the present licensed capacity of four million. The total installed capacity of around five million tyres and tubes by 1971-72 is broadly expected to equal the estimated demand for that year. In fact a licensed capacity of over 800,000 numbers is already under implementation. Dunlop, Inchek Tyres and Premier Tyres have been licensed substantial expansion to the extent of 135,000, 120,000 and 60,000 numbers respectively and these expansion schemes are likely to materialise in about a year. Then there is a new unit, Universal Tyres, progressing in its implementation at Allahabad with a capacity of 300,000 tyres and tubes and it is likely to be in a position to start production by the end of 1969. Similarly a substantial expansion scheme of Goodyear will also materialise by 1969, adding another production of 200,000 numbers. In other words, by the end of 1969 the production in the country of tyres and tubes might be of the order of four million, which will be sufficient for the domestic market at that time and leave some margin for exports too.

The new licensing may not be exactly for the additional quantity required in view of the previous experience when various entrepreneurs who approached the government for licences did not actually see through their schemes. For instance, during the third Plan, three units—one in Kerala, another in Madras and a

third in Rajasthan—with a licensed capacity of 300,000 tyres and tubes did not come up for actual implementation. It is also quite possible that the government is tempted to allow the presently established manufacturers to add to their capacity through substantial expansion, keeping in view the fact that comparatively less foreign exchange may be required for their balancing equipment and these units will have no problem of looking for foreign collaborators. On the other hand the smaller units—Premier Tyres, Inchek Tyres and Madras Rubber—have been reported to hold the opinion that the expansion of capacity of the existing large units will place them at a comparative disadvantage in terms of costs at a time of slack domestic demand. In fact these units could utilise only one-third of their installed capacity when the competition from the large producers was substantial. They have, therefore, demanded that if new capacity has to be created by substantial expansion, it should be done preferentially through their expansion to give them an opportunity of deriving the advantages of the economies of production. There is something to be said for this view and the government should give an opportunity to the newly established units to achieve a production capacity of 500,000 to 600,000 tyres and tubes.

The tyres and tubes industry has made considerable headway on the export front and in 1967 export earnings were of the order of Rs 3.50 crores, against around Rs 2.50 crores a year before. Dunlop contributed a major share of Rs 2 crores and Firestone and other producers earned the remaining amount of Rs 1.50

Cotton Textile Industry in the Doldrums

THAT ADEQUATE availability of raw material is a *sine qua non* for the satisfactory performance of any industry is perhaps being brought home to no industry more often, also more vividly, than to the our cotton mill industry. The low crop of the last two seasons (1965-66 and 1966-67), the acute shortage of foreign exchange to import cotton from abroad and the difficulty in regard to timely arrivals of even the foreign cotton for which arrangements are made in advance, have prompted both the authorities and the mill interests to think in terms of raising more cotton in the country. But there are limitations by way of inadequate inputs and limited areas with assured water. (Even today, the percentage of cotton grown on irrigated land or land with assured rainfall is only about 50 per cent of the total area of around 20 million acres under cotton in the country.) It is not surprising, therefore, that cotton has been hitting the headlines so frequently these days.

This time, two or three developments have brought the question of cotton to the fore and cotton interests, growers and traders alike, are complaining they have been hit hard by some decisions of the mill interests. On the other hand, cotton mill interests, feeling piqued by the criticism of the government (that mills are themselves responsible for the prevailing high prices

crores. Export market for tyres and tubes manufactured in this country is expected to grow further and it is with this aim in view that the government has put the rider of 10 per cent exports for the establishment of new units. In this manner the export of tyres and tubes is likely to increase to the extent of Rs 5 to 6 crores by 1971.

There is likely to be a shift in the pattern of production of tyres and tubes. At present nearly 60 per cent of the total production is of giant tyres and tubes for buses, trucks, light trucks and tractors and only 40 per cent of those for motor cycles, scooters, cars and jeeps. During the last two years the demand has increased for tyres for light vehicles as against tyres for heavy vehicles. The manufacturing programme of automobile producers has also witnessed a shift against heavy vehicles in favour of light ones. Even the present shortage, it may be added, is not for all categories of tyres and tubes but for those of motor cycles, scooters, tractors and to some extent of cars.

Fortunately the industry does not have many problems in terms of raw materials or equipment. The full quantity of synthetic rubber and reclaimed rubber required is available indigenously and even natural rubber is made available to the extent of 85 per cent from plantations within the country. There should therefore be no great difficulty in the industry meeting the nation's prospective needs, while managing simultaneously to cultivate the attractive possibilities of profitable export trade.

of cotton which they conveniently press into service for making a case for higher cotton prices) have decided to limit the stocks of cotton they hold. Meanwhile, the Reserve Bank of India's directive to banks regarding advances against cotton and kapas, which has led potential buyers to hold back, has driven the cotton growers of Vidarbha to threaten that they will not grow cotton unless the directive is withdrawn. The cumulative effect of all these is an avoidable stalemate. Whereas cotton growers as well as mill interests want higher prices to counter the effects of inflation, the authorities, for the same reason (being concerned, as they are, not to accentuate inflationary trends) are not disposed to concede higher cloth prices even after a cast iron case for an increase has been made out by the Indian Cotton Mills' Federation (ICMF). While we do appreciate this stance of the government to some extent, we cannot understand the reluctance at the same time, of the authorities to provide relief to the mill industry in the matter of excise duty.

The only feasible solution to the problem of narrowing the gap between the ever-rising cost of production and, therefore, of rising cloth prices, which include a stiff dose of excise duty, and the steadily shrinking purchasing power of the consumer, thanks to inflation, seems to be to reduce the excise duty. The

ICMF does not, therefore, at all exaggerate, when it says that, if the excise duty is retained at its present level, the government's revenue would show a fall. Not only would the government's revenue by way of excise duty fall thus as a result of continued deterioration in the production and disposal of cotton cloth and yarn, but its tax revenue as well. This is amply borne out by the figures of profits of the mill industry (80 per cent coverage) published in the December, 1967, issue of the Reserve Bank of India Monthly Bulletin. According to these figures, profits of the industry before tax which were as high as Rs 54.70 crores in 1961-62 dropped sharply to Rs 16.95 crores in 1965-66; over the same period tax paid by the industry to the exchequer fell from Rs 22.78 crores to Rs 13.73 crores.

But tax paid to the exchequer was not the only casualty. Mill-made cloth production fell from 4,654 million metres in 1964 to 4,107 million metres last year (1967); yarn production also declined—despite an increase in spindleage of two million—from 965 million kgs to 897 million kgs. Above all, employment fell from 831,000 workers in all shifts to 792,000 workers. The same issue of the Reserve Bank Bulletin also refers to the distortion in the picture of industrial performance in the following words:

"Much of the deterioration in the corporate sector's overall performance, as noticed above, may, however, be attributed to the exceptionally poor showing of the cotton textile companies, which formed the largest group of selected companies, viz., 256 or nearly one-fifth of the total 1,333 companies studied in this article. The total number of companies incurring losses increased by 82 from 199 in 1964-65 to 281 in 1965-66. In cotton textile industry, the increase in the number of companies incurring losses was as high as 74. This has brought about a distortion in an otherwise better performance of the majority of the other industries."

According to the same unimpeachable source, again, "in the case of cotton textiles, as many as 123 out of 256 such companies, incurred losses during the year" (1965-66), thanks to "a slackening of demand for their products resulting in heavy accumulated stocks. The cotton textile industry also enforced a voluntary cut in output to ease their overstocked position."

The steadily rising number of mill closures is another index of the poor state of health of the cotton mill industry. Even according to the Textile Commissioner's Bulletin this number, which was only seven in 1963, went up to 52 in 1966 and, last year, with all the efforts of the authorities, it was as high as 34. Surely not all this could be ascribed to mismanagement, as is supposed by some. It is at once a clear indication of the uneconomic prices (for whatever reasons) that the products of the industry are fetching today, on the one hand, and of the stiff consumer resistance, thanks to high costs of living, on the other. The tragedy is that it is precisely when the consumer spends less on textiles, the cost of production also tends to go up because of the workers' demand for higher wages and the farmers' insistence on higher prices for

their produce—cotton in this instance—to meet their own respective higher living costs. According to the ICMF, between 1963 and now, cotton prices have gone up, on an average, by 32 per cent and wages by 64 per cent, not to speak of more or less similar increases in other elements of cost. All in all, even without taking into account the rise due to extra holidays imposed on the industry by reason of cotton shortage, the total increase in cost has been estimated at about 40 per cent. On the top of all this has come the financial squeeze. As a result, ironically as it may seem, while the resources of mills have become depleted either because of continuous losses or because of investment, the mills are required, in order to ensure speedy disposal of their products, to give credits, sometimes extending to six weeks, to wholesalers and dealers in these products.

Driven to the wall thus, representatives of the top sixteen Indian cotton consuming groups of mills met in Bombay recently and pledged among themselves strictly to restrict their holding of cotton stocks, including purchases, to not more than one and a half months' requirement of Indian cotton in the case of mills in Bombay and Ahmedabad and to not more than two and a half months' requirement in other centres. Consumption of Indian cotton, even otherwise, had been steadily going down; from 456,000 bales in September 1967, the first month of the current cotton year, it fell to 428,000 bales in October and further to 411,000 bales in November, the first quarter's average thus working out to 432,000 bales as against 448,000 bales for the corresponding quarter in the 1966-67 cotton season. Stock of Indian cotton held by mills at the end of November, 1967, also were no more than 603,000 bales, which was lower than at the end of November, 1967. In other words, what the 16 groups of mill interests have done is only to make the prevailing trend a permanent feature. This should have a restraining effect on cotton prices, even according to government's reasoning.

Mill interests have also suggested a ban on exports of Bengal Deshi with the same end in view, but opinion in cotton circles is that this is not desirable for a number of reasons. In the first place, the latter argue, only the surplus that is left over after fully satisfying the Bengal Deshi requirements of mills is being exported today. Secondly, it is said, these exports are absolutely necessary to earn the foreign exchange needed to finance imports of cotton at least to some extent. Be that as it may, what the mill interests have done is to impress upon the authorities that, even after all these avenues, palatable or not, are explored and the Reserve Bank also has come out with its credit curbs on advances against cotton, cotton prices have not tended to slump, and so long as other prices continue to rule high, the grower will not part with his cotton at a lower price. The question then arises as to whether, even in this impossible situation, the authorities should continue to refuse the much-needed, relief in excise duty as also the upward revision of controlled cloth prices (months after it has actually fallen due).

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Tax Policy and Economic Development

R. N. BHARGAVA

TAXATION IS an important instrument to achieve the objectives of the state. Chief Justice Marshall of the US Supreme Court once said that, "the power to tax involves the power to destroy". Mrs Ursula Hicks has stated that "tax bankruptcy was an important contributory factor to the fall of the Roman Empire. Unjust and inefficient taxes set the French Revolution aflame. An important part of the explanation of Germany's failure in the war of 1914-18 was her antiquated tax structure.....inefficient taxes helped to lose Britain the American colonies". Tax policy is, thus, a vital instrument in the hands of the government. However, it has to be judged and framed in the light of the total governmental policy in different spheres. It is possible to make good the lacuna in tax policy by the expenditure or other policies of the government.

In an underdeveloped country, tax policy has to achieve a number of important objectives. It must bring adequate revenue to the government to enable it to finance schemes of rapid economic development. With the expanding financial needs of the government for current as well as development expenditure, the government tries to mobilise resources through taxation as well as loans. Loan finance is usually meagre because private savings are low and they (private savings) are required to finance capital expenditure in the private sector also. In India, owing to poor response to the government's borrowing programme, revenue surpluses have been created in successive budgets to finance capital expenditure. In the post-independence period, the total revenue surpluses have amounted to Rs 1893 crores till the end of March 1967. They have helped to reduce the extent of deficit financing, which amounted to Rs 2,868 crores during the sixteen years of planning ending March 31, 1967. The government had to resort to deficit financing because of its failure to levy adequate additional taxation or to reduce expenditure. This has resulted in a rapid rise in prices. During the second Plan, the index of wholesale prices increased by 35 per cent and on top of this increase it further rose by 32 per cent during the third Plan. It has continued to rise since then and increased from 172.4 (base: 1952-53=100) at the end of March 1966 to 202.5 on March 25, 1967: a rise of 30 points in a year. Since then it increased further to 219.5 on August 5, 1967. Rising prices depreciate the real value of savings, which have to be encouraged by tax policy. Tax policy should also, if necessary, enforce savings amongst the community and help to transfer them to the government or desired private channels of investment. The need to encourage savings emphasises the importance of raising adequate resources through non-inflationary measures.

Incentive Taxation

Incentive Taxation

Tax policy should help to increase the volume of investment and direct it into proper channels in the broader national interest. Other governmental policies such as industrial policy, commercial policy and import licensing policy should also be directed to achieve the same end. Tax policy should also encourage enterprise and risk taking. This emphasises the need for incentive taxation in a developing economy. The tax structure should be so devised that it encourages innovation and cost reduction to enable developing and new industries to compete with foreign products so that exports are increased. All developing economies face shortage of foreign exchange and to help solve the foreign exchange problem tax policy should encourage exports and import substitution. Owing to shortage of internal savings and the need for large investment, tax policy should encourage foreign investment. The import of equity capital and technical collaboration with established foreign enterprises enables underdeveloped countries to reap the benefits of modern research and technique. Tax policy

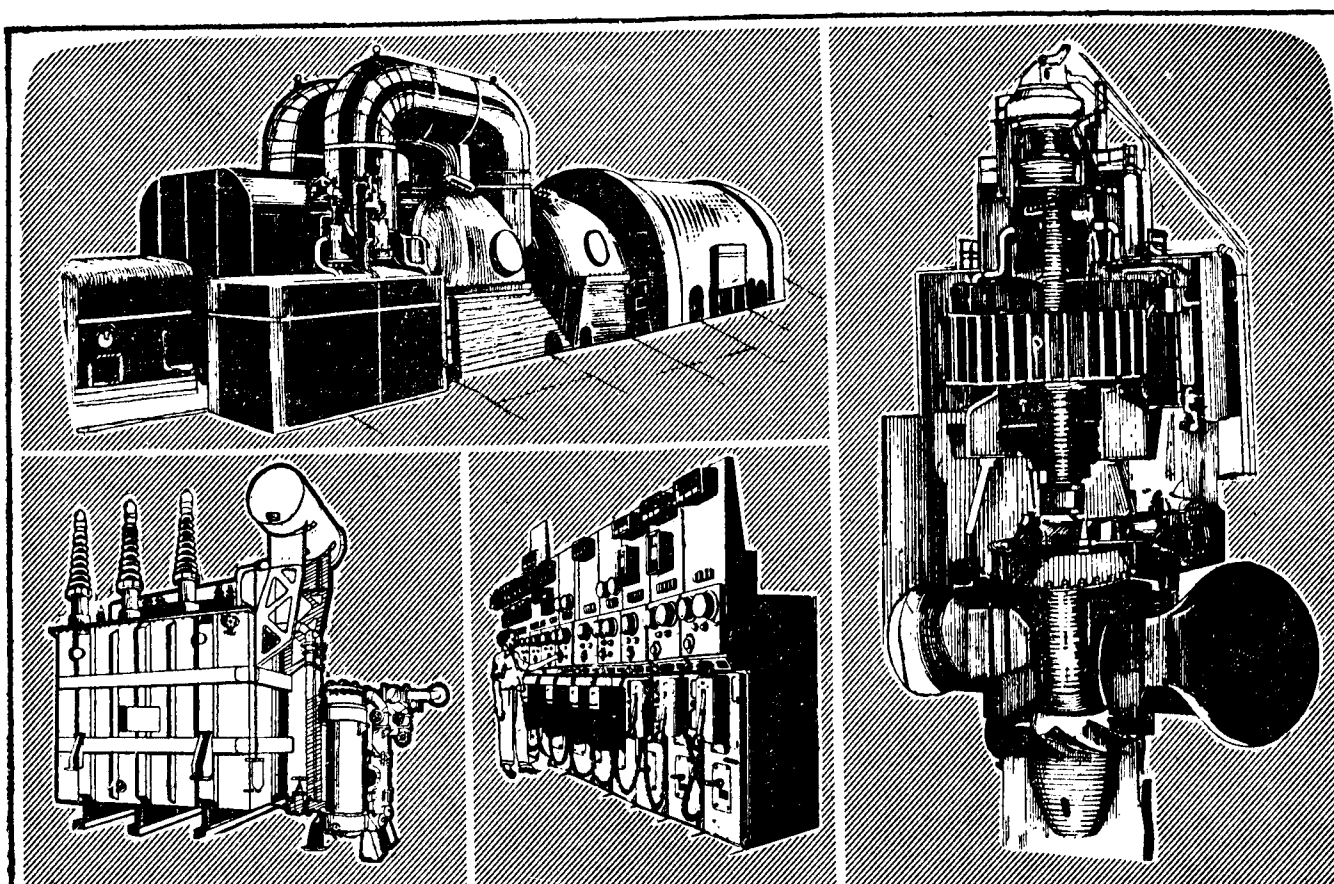
should also help the state to achieve its distributional objectives so that in the process of growth social justice is achieved within the different sectors of the economy. As a part of fiscal policy, tax policy should also help rapid economic development, including increase in national and per capita income and reduction in unemployment and underemployment so that the idle manpower resources in the country are fully utilised.

It will be observed that there is a conflict between some of the objectives of tax policy. A policy that encourages savings and investment may run counter to the achievement of social justice. In India, we have decided to establish a socialist pattern of society. But it is well known that more equitable the distribution of income and wealth smaller is the rate of savings. The need for raising large revenue through taxation may discourage enterprise and risk taking. In view of this conflict, it is necessary to draw compromises and fix up priorities for the achievement of the various objectives. It may be necessary to move more slowly towards the socialist pattern of society in order to encourage savings and investment.

Need for Co-ordination

In federal countries, there is need for co-ordination of the tax policy between the central and the state governments. India has a federal structure where different sources of revenue are assigned to the two layers of government, which are sovereign in their own spheres. However, co-ordination does not mean subordination and in India it has been achieved in the past through the device of shared taxes. The central government shares the proceeds of income-tax and excise duties with the states, while the revenue from estate duties is distributed entirely amongst the states. Co-ordination is also achieved through conferences of central and state finance ministers and through the Planning Commission. The Planning Commission lays down targets of additional taxation and expenditure by the central and state governments and the need to achieve these targets brings about co-ordination of policies. The Finance Commission, which advises the President and Parliament on the allocation of resources to the state governments, also helps in this co-ordination process, as it examines the budgetary structure of the states in making its recommendations. The Government of India gives grants and other assistance to the states. This is, and can be, utilised for inducing the states to fall in line with a national fiscal and tax policy. Following the general election of February 1967 non-Congress governments were set up in eight states, though in the past the central and state governments all belonged to the Congress party. This changed political set-up will necessitate more careful handling of inter-governmental financial relations, so that strains are avoided in achieving co-ordination of fiscal and other policies between the two layers of government.

It is necessary to emphasise here that there should be complete integration of tax, fiscal, price and income policies. The tax policy helps to achieve equity between different sectors of the community. But deficit financing plays havoc with prices. Relative incomes change indiscriminately and make it more difficult to achieve the social objectives. There has been a rapid rise of prices during the last decade. This rise tends to be indiscriminate and the burden of resources raised through deficit financing falls on the people not in relation to their ability but depends on the relative movement of prices. The fixed income groups and those whose incomes do not rise as rapidly as the rise of prices are the worst sufferers. Thus a weak price policy distorts a sensible tax policy. It



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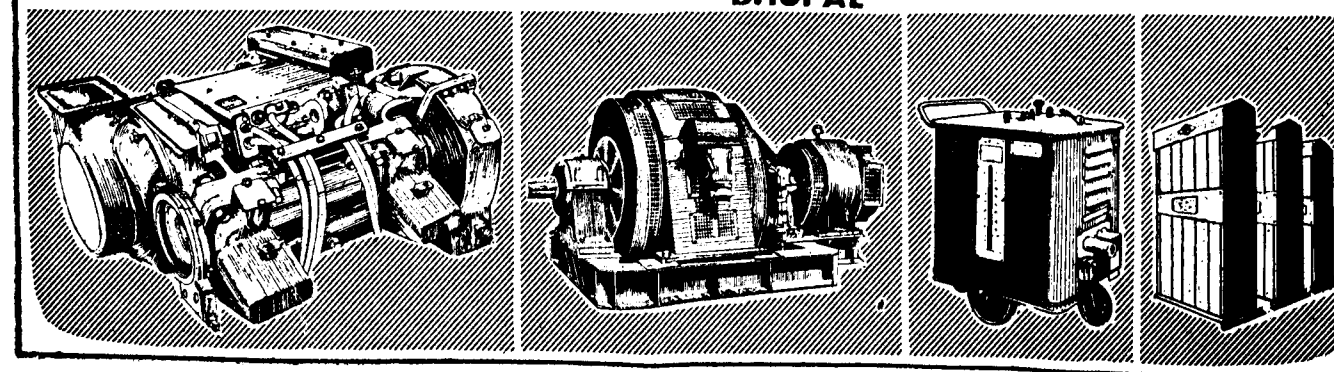
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is, therefore, necessary that the price and income policy should be closely integrated with the tax and fiscal policy of the government. It is unfortunate that this integration has not been achieved in India during the planning period. This is a serious criticism against planning in India. When we plan rapid economic development we have to ensure that we also plan that the cost of development will fall on the people in relation to their ability and equity considerations will not be thrown to the winds.

The tax policy of the Government of India along with some of its other policies has had an adverse effect on the capital market. The index of the prices of variable dividend industrial securities (base: 1961-62=100) declined to 82.6 in March 1965 and further to 75.4 in March 1966, though it increased thereafter to 82.5 in March 1967. The prices of the shares of most of the new concerns are at a discount and these concerns have not paid any dividends for years. The result is that the market for the issue of industrial securities of new concerns is in the doldrums. In a majority of cases 80 to 90 per cent of the share capital has to be subscribed by the underwriters as the response of the public is exceedingly poor. The burden of financing new industrial enterprises, or the expansion of existing ones, thus falls heavily on the financial institutions set up by the government to give financial aid to industries in the private sector. This is not a happy situation.

Administrative Incompetence

The government has failed to realise in its taxation policy that there is difference between intention and achievement. Often it does not have the administrative competence to achieve what it intends to do. It is easy to levy a tax every time a husband talks to his wife, but no government in the world possesses administrative competence to enforce such a tax. In India the weight of direct taxation is so heavy that it is tolerated only because of extensive evasion. Every good tax tends to become a bad tax and yields diminishing returns beyond a certain rate structure. It also tends to produce extremely injurious effects on incentives and risk-taking and its psychological impact is disastrous. Heavy tax rates also encourage evasion and raise it to the status of a national virtue. Direct taxes in our country are at present highly progressive and their marginal rates are higher than even advanced countries of the world. Corporate profits are taxed at 55 per cent but where the ownership of shares is restricted, in what are known as private limited companies, the rate of tax is 65 per cent. The marginal rate of income tax is also 65 per cent at the level of Rs 70,000. There is then a surcharge of 10 per cent, which raises the marginal rate to 71.5 per cent. In addition, there is an additional surcharge if the component of unearned income exceeds Rs 30,000 or earned income exceeds Rs 100,000. There is also a compulsory annuity deposit scheme under which the maximum rate of deposit is 15 per cent on incomes exceeding Rs 70,000. The balance of the income after deducting the annuity deposit is subject to income tax and the surcharges levied on it. The marginal rate of estate duty is 85 per cent at the level of Rs 20 lakhs. The maximum rate of gift tax is 50 per cent on gifts exceeding Rs 15 lakhs. The maximum rate of wealth tax is 2.5 per cent on wealth exceeding Rs 20 lakhs. There is an additional wealth tax on the value of urban immovable property in certain cases whose marginal rate is 4 per cent. The result is that at certain levels of income and wealth the tax liability of the assessee. This is probably justifiable in view of our socialistic objectives, but the government does not possess the administrative competence to enforce these rates of taxation. As stated earlier, these heavy rates are tolerated because of widespread evasion. Evasion tends to make the tax structure inequitable. The salaried people, and those who cannot hide

their income or wealth, have to be taxed much more heavily because the others are not paying their fair share of taxes.

Our government has succeeded in building a highly complicated tax structure in its attempt to achieve conflicting objectives. Kaldor observed that "the company taxation provisions of India are apt to strike a detached observer as a perfect maze of unnecessary complications, the accretion of years of futile endeavour to reconcile fundamentally contradictory objectives".* The structure of the personal income-tax is no less complicated and it requires great ingenuity to fill one's tax return and still greater ingenuity to calculate his tax liability. In 1965 the super-tax and income-tax on personal incomes were merged and some other simplifications were introduced. But even then there is great need for a drastic simplification of the tax laws in the country. A complicated tax structure increases the costs of compliance of the assesses and also encourages evasion. Often taxes are evaded because people are afraid of complications of a tax and in order to avoid those complications, which create a psychological fear, even honest citizens prefer to evade the taxes.

It is necessary that a tax policy to be successful must be stable, consistent and certain; this will help investment and enterprise so vital in a developing economy. However, there are so frequent changes that our tax knowledge becomes obsolete with remarkable rapidity. The assessing officers find it very difficult to keep themselves abreast of the latest changes and, even if they do, it is a problem for them to assess income of different years under different and varying provisions. The annual Finance Act which only includes changes in the existing tax structure, often runs into 50 to 80 pages. Perhaps successive finance ministers get a whimsical pleasure in introducing many changes to stress their new thinking and originality in framing tax proposals and changes in the tax system. It is apparent that the tax proposals are not well thought out when they are changed so rapidly.

Glaring Examples

To give a few instances, an expenditure tax was imposed from 1957-58, following Kaldor's recommendation. The tax was suspended with effect from April 1, 1962, but was revived from the assessment year 1964-65. The Expenditure Tax Act, 1957, was repealed with effect from April 1, 1966. Again, the Finance Minister introduced a compulsory deposit scheme from April 1, 1963, broadly to apply to all persons whose income exceeded Rs 1,500 per annum. Owing to administrative difficulties and hardships on the poor sections of the people the limit was raised to Rs 7,200 during the year and the entire scheme was replaced by an annuity deposit scheme in 1964. The latter scheme applies to persons with incomes exceeding Rs 15,000 per annum. But in 1966 it was made optional for incomes below Rs 25,000 and again made compulsory from the assessment year 1968-69. Another example is provided by the super profits tax which was imposed on the corporate sector from April 1, 1963, at 50 per cent of residual income (that is, after payment of corporation tax) that exceeded 6 per cent of the paid-up capital and reserves. The rate of tax was 60 per cent of that part of the residual income which exceeded 10 per cent of the paid up capital and reserves. The Finance Minister observed while introducing the tax that, "It is hoped that this tax will act as a disincentive to excessive profits and will help to keep down the prices". The tax was highly inequitable as it penalised efficiency and good management. The government was not very late in realising its mistake and next year the succeeding Finance Minister observed that, "the net result has been that it (super profits tax) has produced a psychological resistance and has to some extent affected industrial growth". He, therefore, substituted the tax by the levy of a surtax on profits of joint stock companies.

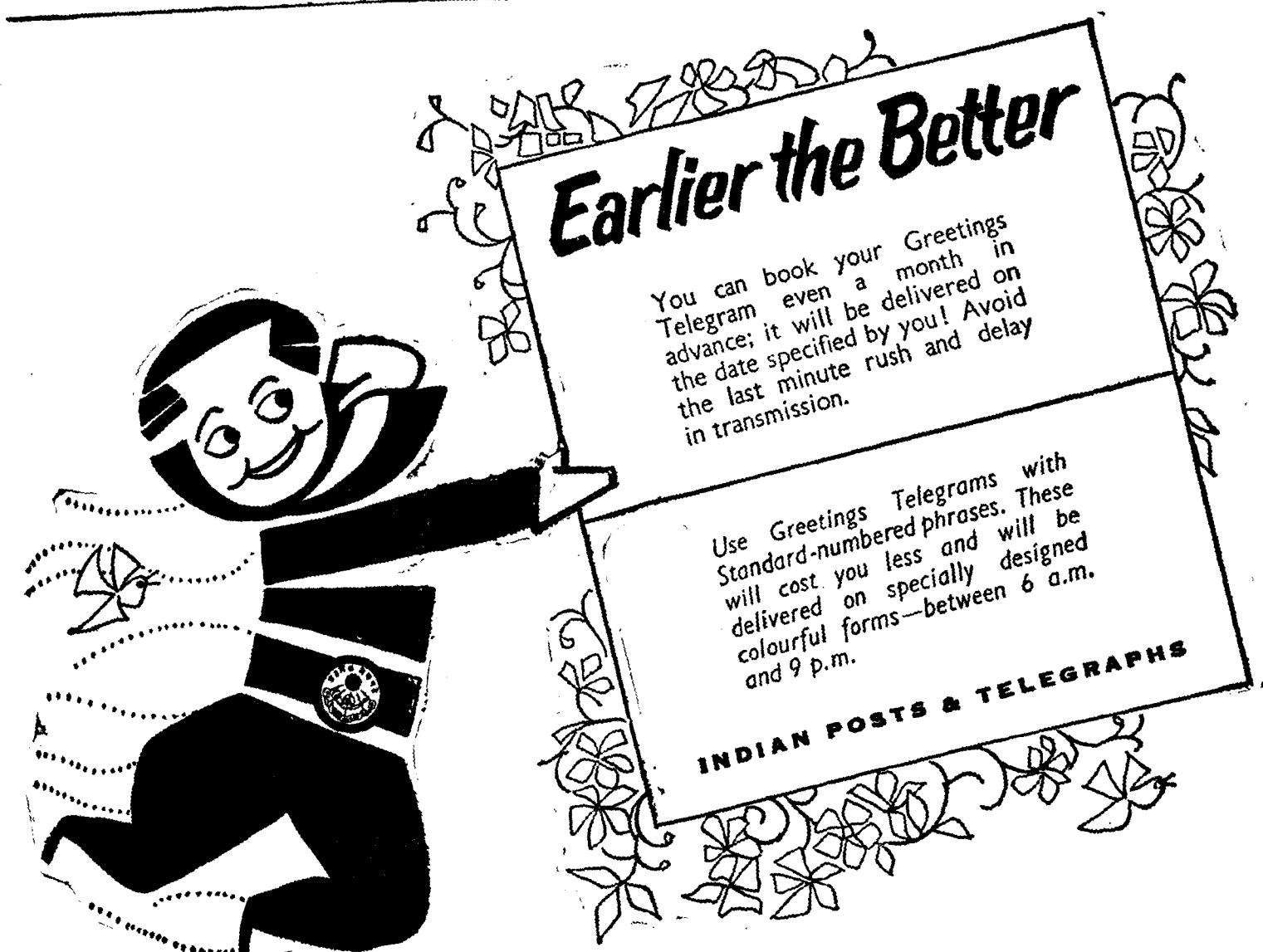
* In his 'Indian Tax Reform', Report of a Survey, p. 85.

Under it the capital base was widened to make the tax more equitable and the rate of tax was also reduced.

The instability in tax rates and tax statutes is particularly injurious to a developing economy such as ours. And it is specially so because of the system of retrospective taxation that exists in India. The tax proposals of the government are announced in the budget speech of the Finance Minister on the last day of February. The proposals are passed by Parliament sometime in May and they relate to the assessing year which is one year ahead of the year in which income is actually earned. Thus income earned during the financial year April 1, 1965, to March 31, 1966, is assessed to tax in the assessment year 1966-67. The tax rates were announced by the Finance Minister in his budget speech on the last day of February 1966 and these were finally passed by Parliament in May 1966 so that an assessee could know the rate of tax that he has to pay on the income almost three months after the end of the year to which the income related. This would not matter if there was reasonable stability in tax rates. But the tax rates and tax statutes are changed with remarkable rapidity. This is probably encouraged by the fact that the Indian Income Tax Act does not prescribe the rate at which the income-tax has to be levied; the tax rates are prescribed by the annual Finance Act, which prescribes the rate of tax for one year only. Thus for the subsequent year the rates have to be prescribed again and this acts as an incentive to introduce changes. It is necessary that in the interest of stability and certainty the government should plan its tax structure for at least the period of a

five-year plan so that changes are introduced, if necessary, at the beginning of successive plans. It is the quality of good leadership to make successful projections about future and plan accordingly. It is unfortunate that financial leadership has been lacking in the country. It is also pertinent to note in this connection that often the Congress has imported a Finance Minister from amongst independent financial experts.

Finally, it may be mentioned that the working of the Indian Constitution has shown that there is concentration of tax revenue and tax powers so that the centre has grown into a financial Leviathan. Out of total tax revenue of the central and state governments of about Rs 3,200 crores in 1966-67 (budget) nearly 72 per cent was raised by the central government. Further, the state governments have the power to levy taxes which are felt more directly and fall on the majority of the people. The agricultural sector, which can be taxed only by the state governments, in an important political majority in an agricultural country with adult franchise. All state governments have proved politically weak to tax this sector even though it has benefited from rise in prices, increase in productivity and development expenditure which is highly agriculture oriented. In such a situation certain awkward problems were raised even when there were Congress governments at the centre and in all the states. It will impose a heavy strain on union-state relations when nine states in the country have non-Congress governments. There is urgent need for putting inter-governmental financial relations on a sound footing.



Recession and the Government's Labour Policy

A Special Correspondent

THE YEAR 1967 was marked by an unprecedented period of recession, particularly in the engineering industry, which led to closures and retrenchment and a general setback in economic development. Unrest on account of the hardships caused by unemployment also increased.

Some time back the Prime Minister stated that the government was determined to break the vicious circle of "rising prices, higher wages and again higher prices". The Prime Minister added that she had the greatest sympathy for the vulnerable sections of society which were the worst sufferers, but the government had limited resources and, if it was necessary to undergo hardships, the people should be willing to do so. This statement emphasises the fact that there have been inherent difficulties in the situation and what the government could do and has attempted to do can only be palliatives. Nevertheless the situation caused by the recession has revealed certain deficiencies in labour policy which has been found to be not properly oriented to meet difficulties such as were experienced during the year.

The Evil of 'Gherao'

As is well known, labour resorted to "gherao" particularly in West Bengal, to a lesser extent in Bihar and some other states. There were, between March and August this year, 915 "gheraos" in West Bengal, of which more than 50 per cent were in the engineering industry. The steps taken by the United Front government to check retrenchment and to have disputes regarding threatened retrenchment dealt with by a tripartite committee did not succeed, principally because when there is a situation in which there is a drop in the demand for the products of an industry and no work can be given, it is not feasible to compel employers to continue to employ surplus labour. There is no reason to suppose that decisions by employers to retrench were taken for other than valid and adequate reasons. Clearly it does not pay an employer to pay retrenchment compensation, much less to close down. The constitution provides for the right to carry on business and this by implication carries also the right to close down the business and this cannot form the subject of an industrial dispute. So also, to compel a company not to retrench if the occasion requires it would be an unreasonable restriction on the right to carry on business. In the case of the Salimbong Tea Estate (1964 L.L.J. Vol. II, page 333) the Supreme Court laid down: "It is undoubtedly for the management to decide the strength of its labour force.....If the workmen become surplus it would be open to retrench them.....Thus though the right of the management to effect retrenchment cannot normally be questioned, when a dispute arises before an industrial court in regard to the validity of the retrenchment, it would be necessary for industrial adjudication to consider whether impugned retrenchment was justified for proper reasons. It would not be open to the management either capriciously or without any reason at all to say that it proposes to reduce its labour force for no rhyme or reason."

This is the legal position which is sound law as well as sound common sense and it is not wise policy in the long run to compel companies to keep surplus staff. Some public sector companies have carried on with surplus staff because of the trouble with the unions involved in retrenching, but this is being done at the expense of the taxpayer. That is not what is supposed to be done by the model employer—to be unduly generous to a small section of vocal industrial labour at the expense of the taxpayer. The public sector must be

run on business lines if it is to serve the larger interests of the community. When there is so much unemployment and under-employment in large sections of the population, the public interest is not promoted by continuing to employ labour for whom there is no work, without even resorting to reduction in wages. It has also to be borne in mind that industrial workers have at least some measure of protection against the hardships of unemployment by the provisions of the Industrial Disputes Act in regard to retrenchment and closure, by Provident Fund to which the employer has to contribute, and, in many cases, gratuity also. All these other sections of the community do not have.

Some time back the Labour Minister of Maharashtra made a statement that unless the workers in the India United Mills, which has been taken over by the government, accepted a cut in wages it would be necessary to close down the mills, that the amount of cut would be repaid to the workers when the mills started making a profit, but there has been no response from labour, and although, at the time of writing, the mills continue to make losses the state government has not resorted to a cut though it is authorised to do so under the state law in regard to industries taken over by the government as a relief undertaking. A bold and reasonable policy, though it would not have been popular with the workers and unions, which should have secured the state against unjustified expenditure, required an immediate reduction in wages. It is no use expecting the workmen or their union to agree to a cut in wages. Experience has shown that it is idle to expect them to do so, at all events in the public sector, whatever be the compelling necessity.

Inflexible Machinery

The impact of the situation caused by the recession would have been reduced if the machinery of industrial legislation had the necessary flexibility, but it has not. Wage policy is so oriented that wage boards and tribunals can increase wages but it is next to impossible to reduce wages though the situation may be such as urgently to call for it in a period of great difficulty. This is a serious defect in a system under which, whatever may be the compelling necessity, a cut in wages cannot be resorted to under the existing industrial law without raising an industrial dispute and the consequent litigation which may take years. Labour unions are unfortunately not prepared to make any sacrifices (except up to the extent of not resorting to strikes to enforce their demands when the country is involved in hostilities with a foreign country, as in the case of the industrial truce at the time of the invasion by China). But even in a time of serious recession the spate of strikes and other forms of direct action to secure additional wages and dearness allowance continues. The labour policy of the state should be such as will promote a higher rate of growth, which is not attainable if it is tilted too much, as it is at present, towards industrial workers who form a small portion of the working population. As observed by a commentator: "It will indeed avail the workers little in the long run if entire profits are distributed in the form of wages and bonus. With no capital formation, there will be no future growth and no increase in employment opportunities." The National Labour Commission which is now examining all aspects of industrial relations may be expected to go into this problem and make recommendations which will enable some flexibility to be brought into the system, for it would harm labour less if, in a time of serious difficulty such as the recent recession, there could be some avenue open to the employer

viz. reduction in wages or continuance of work only for some days in the week rather than retrenchment, in suitable cases.

The retrenchment and the consequent unemployment has brought to the fore proposals by the Labour Ministry for a social security scheme. The scheme is proposed to cover industrial workers drawing up to Rs 1,000 per month who are covered by the Employees' Provident Fund Act and the Coal Mines Provident Fund Act. The categories of workers included in this scheme are those already protected to some extent by the provisions of the Industrial Disputes Act regarding retrenchment compensation and who also enjoy the benefits of a provident fund scheme and in many cases a gratuity scheme also. It is a question whether the state which has as its aim a socialist pattern of society should concentrate attention on providing further security benefits to those who have already some social security benefits, which the vast mass of non-industrial workers and agricultural workers do not have.

Heavy Burden

The condition of industrial workers has already greatly improved through wage board and tribunal awards and settlements. The scheme of social security for industrial workers referred to above was recently finalised with the aid of an ILO expert who, it is understood, had suggested that the scheme should be first tried as a pilot scheme for workers in the coal mining industry who are covered by the Coal Mines Provident Fund Act. But this industry has recently been burdened with the huge liability of about Rs 25 crores under the wage board award and it would obviously not be wise to select this industry to start with for the scheme. It is learnt that the scheme has been circulated to the state governments for opinion. In the meanwhile the National Labour Commission, the terms of reference of which include the subject of social security schemes, has under active consideration a social security scheme to include not only industrial workers but also other employed persons such as teachers. It is desir-

able that the government should await the report of the commission before launching on the social security scheme referred to above.

It is necessary to refer here to the establishment of the Textile Corporation with a capital of Rs 10 crores. Time and experience will show whether the legislation is successful in its aims. It should, however, be borne in mind that the assumption commonly made that the difficulties of the "sick" cotton textile mills are due to mismanagement is not correct. While there may be a few mills which have been mismanaged (and that is not peculiar to the cotton textile industry) the "sickness" has more often been due to other causes. The first Cotton Textile Wage Board observed in its report that units which were maladministered for the personal gains of management were few and that "in spite of good management there are mills which have run their course".

While there should be no hesitation in scrapping mills which are incapable of going into production with any efficiency, the government might do well to do everything in its power to render assistance, to viable units which may be in financial difficulties, as well as to promote the general programme of rehabilitation and modernisation of the cotton textile industry. In this connection the action reported to be taken by the Maharashtra government to participate in the equity capital of the Central India Spinning, Weaving & Manufacturing Co Ltd to the extent of Rs 40 lakhs, in order to help the mill out of difficulties, is a step in the right direction. The scheme submitted by the Tata management provides for matching the government participation in capital by converting the loan by the Tata Industries Private Ltd to the company into equity capital in the company. The scheme further envisages the appointment of government nominees on the board of directors. Schemes of this kind which utilise the existing expertise in management would be more economical and would safeguard the interests of the taxpayer better than the government running a highly competitive industry such as the textile mills.



THE GRAPES ARE SOUR

FROM THE CAPITAL'S CUPBOARD

A Report on Wage Boards

THE KANTI Mehta Committee, which was set up by the National Commission on Labour in April last to "review the functioning of the system of wage boards in all aspects," is understood to have found three main defects in the present system of central wage boards. The defects are: (a) the recommendations of wage boards have, of late, tended to be non-unanimous; (b) the time taken by wage boards to complete their work has tended to become unduly long; and (c) increasing difficulties have been faced in the implementation of the recommendations of wage boards.

With a view to overcoming these defects, the committee, it is further learnt, has made a large number of suggestions. The important among these are: (i) in future, wage boards should function essentially as a machinery for collective bargaining and they should strive for unanimity; (ii) the chairman of a wage board should preferably be selected by common consent of organisations of employers and employees in the industry concerned—if, however, no such agreement is possible, government should nominate the chairman not necessarily from the judiciary but even from among such other eminent persons as enjoy confidence of both employers and employees and who have experience of industry as well as labour; (iii) wage boards should be assisted by technical assessors and experts—on the question of having independent members on wage boards, opinion is sharply divided; (iv) the terms of reference of wage boards should be decided by government in consultation with the organisations of the employers and the workers concerned; (v) A central wage board division should be set up in the union Ministry of Labour on a permanent basis to service all wage boards through processing and supply of statistical and other information and lending of the necessary staff, etc.; (vi) a standard questionnaire should be prepared, kept ready and issued as soon as a wage board is set up—this may be followed up by a short supplementary questionnaire to collect information peculiar to the industry concerned; (vii) on-the-spot inspections by wage boards should be reduced to the minimum; (viii) a manual of proceedings for wage boards should be prepared; (ix) normally, all the unanimous recommendations of wage boards should be accepted—in case of non-unanimous recommendations, government should hold consultation with the organisations of employers and employees represented on the wage board before arriving at a final decision; (x) although wage boards should not be set up under any statute, their recommendations, as finally accepted by government, should be made statutorily binding on the parties; (xi) for the industries covered by wage boards, a permanent machinery should be created for follow-up action on the recommendations of wage boards.

The wage boards, the committee suggests, should complete their work within a year and the period of operation of the accepted recommendations of a wage board should be between two and three years after which the need for a subsequent wage board may be considered on merit. The committee further recommends that due consideration should be given to difficulties which may arise in covering all the establishments of an industry by one wage board. The various issues which arise in determining the wage structure, such as the geographical and occupational differentials to be allowed, the basis for determining capacity of the industry to pay, etc. should be settled mutually between the parties.

CLOTH PRICES AND PRODUCTION

In response to the request of the cotton mill industry for a raise in the prices of the controlled varieties of cloth by 12 per cent—nearly 10 per cent owing to the rise in raw cotton prices and three per cent on account of the increase in the wage bill since April 1967 when an upward revision in the prices of the controlled cloth was effected last—the Govern-

ment of India, it is understood, is considering curtailment of the area of control on cloth from the present approximately 40 per cent to about 25 per cent of the production. The following varieties of cloth may be decontrolled as a sequel to this consideration: (i) dhoties and sarees of superfine category; (ii) long cloth of fine and superfine categories, and (iii) drill and shirting of higher medium, fine and superfine categories. The price and production controls may continue on dhoties and sarees of all categories except the superfine category, on long cloth up to higher medium category and on drill and shirting belonging to the coarse and lower medium categories. The prices of the higher medium and fine categories of dhoties and sarees, and of long cloth belonging to lower medium and higher medium categories, may also be allowed to be raised by five to six per cent. This increase in prices, however, may be offset by reduction in the basic excise duty on these varieties of cloth as well as reduction in the trade's margin. The reduction in the basic excise duty is not expected to involve any loss to the central exchequer; the freeing of nearly 37.5 per cent of the present controlled production of cloth is likely to result in increased accruals of revenue from excise duty from this portion of output.

NEW AIRCRAFT FOR I.A.C.

After considering the economics and suitability of several types of aircraft such as BAC 111-400, BAC 111-500, Boeing 737-100, Boeing 737-200, Boeing 707-437, DC 9-30, DC 9-20, TU 134, Caravelle-Vin and Viscount 700-D, the P. C. Lal Committee, it is understood, has recommended that Boeing 737-200 and DC 9-30 are the most suitable aircraft for use on trunk routes in this country. The committee feels that on the basis of past statistics of traffic growth and load factors, there is urgent need for augmenting the fleet capacity on trunk routes presently operated by Caravelles. It, however, has suggested that since Boeing 737-200 is still in the stage of type-certification and DC 9-30 entered service only a year ago, the final decision on the type of the new equipment to be procured by the Indian Airlines Corporation (IAC) may be taken only towards the end of the current calendar year. As regards the present fleet of 14 Viscounts with the IAC, the committee's view is said to be that Viscounts should be utilised for the next five years not only on the regional routes but also as supplementary aircraft on certain trunk sectors other than the Delhi-Bombay-Calcutta-Delhi route.

TRACTORS AND WAGONS

Birlas, it is learnt, may soon go in for the manufacture of tractors in the 50/55 HP range. The collaboration for this venture is likely to be available from the Soviet Union. An approach to the Soviet Union for this purpose, it is understood, has already been made.

Meanwhile, with a view to enabling our wagon industry to work to full capacity and encouraging international division of labour, the Soviet Union has agreed to buy nearly 10,000 eight-wheeler wagons (costing about Rs 150,000 each) annually up to 1975. This may necessitate modifications of our plants as the Russians require standard gauge wagons and not broad or metre gauge ones as required by our railways. Czechoslovakia is also said to be interested in buying wagons from this country as, after a recent review, it is reported to have found wagon manufacture indigenously uneconomic. Rumania has shown interest in purchasing passenger bogies from us. This item may be introduced for export from here in the current year's trade agreement with Rumania which is expected to be signed shortly. Rumania is the only socialist country which has not so far signed the trade agreement with us for the current year. The last year's agreement was extended by exchange of letters up to March 31, 1968.

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LEADERSHIP

Wins second Kuwait order for ICMA export consortium Rs. 3.3 crores in 3 months

INCAB—The Indian Cable Company Limited has won another order in Kuwait for Rs. 7.5 million. This is the second order since INCAB took the lead to investigate and quote in foreign markets on behalf of the power cable-makers of the country. The value of the two orders is Rs. 3.3 crores in 3 months.

Present recession has hit the cable industry hard and demand in the home market has fallen alarmingly. INCAB as leader of the industry

promoted a plan to quote in the world market on behalf of seven power cable-makers which would (a) bring about greater acceptance of the industry's products abroad, (b) earn foreign exchange and (c) fight recession at home.

It was agreed that INCAB would be the initiating and contracting party and share the orders that are obtained with the other members.

INCAB is proud that this concerted move is achieving results.

Members of the consortium

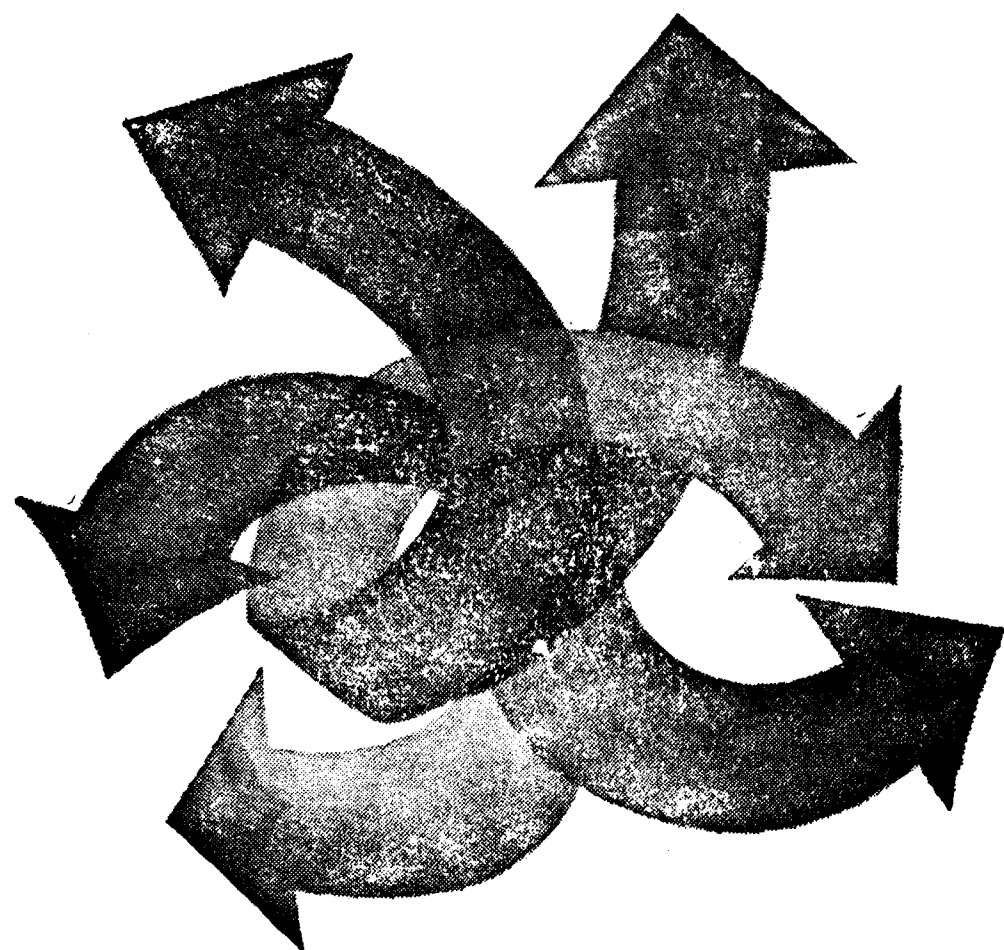
Asian Cable Corporation Ltd.
Cable Corporation of India Ltd.
Fort Gloster Industries Ltd.

Industrial Cables (I) Ltd.
Oriental Power Cables Ltd.
Universal Cables Ltd.

The Indian Cable Company Ltd.

LEADERSHIP
comes but
naturally to **INCAB** 

THE INDIAN CABLE COMPANY LIMITED, 9, Hare Street, Calcutta 1



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studies, the National Science Talent Scheme offers attractive scholarships to cover the course of study in college, from 1st year B. Sc. to Ph. D. Similar facilities are available to promising students, for study in India and abroad, through numerous scholarship schemes. Every year scholarships worth Rs. 30 crores are distributed to students in high schools and colleges.

PLAN MEANS PROGRESS

davp 67/439

WINDOW ON THE WORLD

Food Problems of Developing Countries—I

JOSSLEYN HENNESSY

NEW O.E.C.D. REPORT

LONDON:

IN THE first seven years of the 1960's:

Food production in the developing countries has grown more slowly than demand.

The area of good new land that could easily be brought under cultivation in developing countries has been sharply reduced.

The population of developing countries has been growing at an increasing rate.

Exports to developing countries have just about exhausted surplus stocks of grain in North America.

Development aid from the richer countries has on the whole stagnated.

The debt burden of many developing countries has been rising fast.

These problems concern not only the developing countries but also the more wealthy nations.

These were the basic points made by Mr Thorkil Kristensen, Secretary-General of the Organisation for Economic Co-operation and Development (2 rue Andre Pascal, Paris 16, France), in the recent report on the Food Problems of the Developing Countries submitted to the OECD's Development Assistance Committee, and to be released for publication at the UNCTAD session in New Delhi.

Population Increase

The unprecedented increase in the population of nearly all developing countries is likely to go on till 2000 A.D. and even beyond. Even if family planning progresses, the population of the developing countries is likely to grow much faster than that of the industrialised societies for many decades. Fortunately, incomes per head are also increasing, but in poor countries a large part of any addition to personal incomes will be spent on food; it is, therefore, likely that in the foreseeable future their demand for food will grow more rapidly than its production.

This is because, in contrast to the last few decades when the amount of land under cultivation in the developing regions increased fairly rapidly (accounting for more than half of the increase in production in Latin America, the Near East, and Africa, and for more than 40 per cent in the Far East), there will be in future little possibility for further increases, especially in the Far East. Thus the amount of agricultural land per head will decline. It is likely that by 2000 A.D. each person in the farm population of the developed countries will have about twenty times as much land as the average person in the farm population of the developing countries. Compared with the Far East alone it would be 50 times as much.

It is true that production can be increased, even with a low land-to-labour ratio, by raising agricultural yields. Japan, for example, has had considerable success in labour-intensive agriculture with little land per agricultural worker, and it may be that a number of other countries will be able to emulate Japan's example.

Introduction under favourable conditions of new varieties of maize, wheat and rice, developed in countries like Japan, the USA, Mexico and Taiwan, can yield more than most traditional crops (though the new techniques must be modified and adapted to local conditions). Moreover, modern techniques can be applied to the production and distribution of fertilisers,

pesticides and weed-killers, irrigation installations and means of storage and transport of agricultural products and fertilisers.

It would, however, require a spectacular speeding up of the increase in yields to make production grow as fast as demand in the developing countries, especially if you allow for the improved consumption per head that should accompany economic growth. Moreover, modern techniques penetrate agriculture slowly because of the large number of farmers who have to learn how to use them.

Thus, although most of the increased demand for food can, and should, be met by expanding agricultural production in the developing countries themselves—and such expansion deserves high priority in development planning—it is unlikely that production will increase as rapidly as demand.

Net Food Importers

It follows that food imports into some developing countries will rise faster than food exports from other such countries, so that the group as a whole will be a net importer of food to an increasing extent, probably for a long time to come. Already many developing countries have become net importers of food from the developed areas, and will do so increasingly.

This is not serious in itself. Food production in developed countries is likely to grow so fast that it can easily meet the demand for imports into developing countries; in the longer run the developing countries should be able to increase their exports of manufactured and semi-manufactured goods (as the industrialised countries have already done) which will enable them to pay for their imports of food.

What is serious, however, is that for some years many developing countries are likely to face balance of payments deficits. To develop they must import capital goods. If at the same time they have to import increasing amounts of food and also, as seems likely, serve a rising external debt, shortage of foreign exchange may force them to keep the economy growing slowly so that neither production in general, nor export capacity, can expand enough. The burden on the balance of payments will be especially heavy when poor harvests follow insufficient rain, as in India in 1965 and 1966.

It is here that the real danger lies. Later on rising productivity and slower population growth could make the situation easier, but it is possible that the whole development process may be jeopardised in the next 10 to 15 years because of a shortage of foreign exchange earnings with which to import capital goods for investment. What can the wealthy nations do to prevent this?

II

WHY AID SHOULD BE INCREASED

Unless the gross flow of aid continues to increase, the annual amount of repayment will be larger than the inflow of new aid, and the developing countries would become net exporters of capital to the rich countries. Yet the flow of development aid has on the whole been stagnating since 1961 if deduction is made for the amortisation of existing loans.

More aid is needed, at least until exports of the developing countries have risen sufficiently so that they can pay for all their imports, including food. The best solution would be substantially to increase aid in the form of cash in order to enable the receiving countries to decide what they want to

buy. It may, however, be easier for the donor countries to provide more aid in the form of food.

Food aid has been important since 1954 when legislation was passed in the USA (PL 480). Other countries, e.g., Australia and Canada, have used food in their aid programmes, and the United Nations and the FAO have set up a multilateral "World Food Programme". A further step towards multilateralism was taken under the Kennedy Round in GATT where a number of countries undertook to furnish 4.5 million tons of wheat annually in the three coming years.

In common with other kinds of tied aid, food aid not only helps developing countries, but also supports the exports of the donor country. Tying of aid can lead to undesirable deflections of trade and one cannot be sure that it serves the most urgent needs of the receiving country. On the other hand, tied aid is better than no aid at all, and the argument for some aid tying is that it allows the flow of aid to increase.

Food aid has increased the total flow of aid considerably. In 1961-65 the USA alone provided under government-financed programmes on the average 13.65 million tons of wheat, 0.56 million tons of rice and 1.96 million tons of coarse grains annually, plus other food items. In 1965, food aid represented 33 per cent of the USA's gross aid disbursements and more than 20 per cent of the total flow of aid from OECD/DAC countries.

Food aid was easy to give as long as it could be taken out of accumulated surplus stocks, but in the donor countries, especially in the USA, surplus stocks have been declining since 1961 to a point at which food aid in the biggest donor country now has to come out of current production, to be paid for by the government, and the US government has, mainly for that very reason, permitted a substantial increase of the area under wheat and rice since 1966. This means that from now on food aid represents much more of a real sacrifice for the main donor country than in the past.

III

WANTED: A WORLD FOOD RESERVE

But if surplus stocks are no longer available, there is still surplus capacity. In fact, large areas of farm land are still idle in the USA, and in the developed countries in general production of a number of important food items outruns demand.

Recent OECD studies show that provided that policies are not radically changed the production of cereals of the developed countries combined will increase to an extent that will enable them to satisfy their own demand and increase their net exports substantially. In fact, the surplus available for exports is likely to exceed the quantity that would be imported by the developing countries.

There is also likely to be an exportable surplus of milk and milk products in the developed countries as a group. Milk can be turned into milk powder, and skimmed milk powder is already used in some development aid programmes. It is valuable because it contains nutritionally important animal protein. However, the surplus is likely to become embarrassing owing to the butter fat content of the milk. It is therefore important, as the recent experience shows, that whole milk powder, with the cream in it, can in fact be preserved in a tropical climate.

Some developed countries also have idle capacity for the production of fertilisers. It is therefore proposed that developed countries should have an additional aid programme, comprising grains, milk powder and fertilisers. To combine food-aid with fertiliser-aid would underline the priority now given to agriculture in developing countries.

Since the flow of grains and of milk powder furnished as aid would be part of the markets for these products, it would be important to avoid market disruption, harmful both

to farmers in developing countries and to legitimate commercial exports from developed countries. Participating countries should therefore consult on the timing of purchases and of aid deliveries. This may involve holding in reserve certain stocks, particularly grains, so that an emergency can be met. The food aid programme should not, however, lead to such an increase in production that large surplus stocks, threatening market stability, are accumulated.

Importance of Reserve

The partial failure of the monsoon in India in two consecutive years has shown how important it is to have a world food reserve. World stocks, especially of wheat, but probably also of rice, should therefore always be kept above a certain level. If they are reduced below that level in a bad year, they should be restored in the following year.

This cannot be the responsibility of one single country. An arrangement should be attached to the International Wheat Agreement so that the burden of keeping a buffer stock would be shared by the participants according to some agreed formula.

NOTE: This is the first of three articles outlining the main points of a new OECD Report on the Food Problems of Developing Countries, just submitted to the OECD's Development Assistance Committee by the Secretary General, Mr Thorkil Kristensen. The report has not yet been published but a lengthy summary appears in the latest issue of the 'OECD Observer'.

Next week we look at the agricultural policies of the developed countries, and take a leap into science fiction by examining what fundamental research is doing to provide as yet totally unknown foods that will have to be manufactured if the world is to support a population of 15,000,000,000.

Eastern Economist 20 Years Ago

FEBRUARY 20, 1948

A progressive piece of labour legislation was passed by the Dominion Parliament last week. Introduced in April 1946, by Dr B. R. Ambedkar, the then Labour Member, the Minimum Wages Bill remained on the anvil for nearly two years. During this period events have taken a new turn, Indian history has reshape itself and labour together with other sections of the public has gained a new status and consciousness. Ever since the establishment of the national Government in the provinces and at the Centre, labour has been anxiously looking for a new deal. Sometimes it has even grown impatient and highly critical of Government policy. Not that the Government has been indifferent to the needs of the working class, but it has been accused of moving too slowly and not doing first things first. Time and again, there has come a warning from labour circles that if the Government does not take effective measures to improve the economic position of the worker, its avowed sympathy for the workers will be taken only as a pious expression of good intentions. So long as labour continues to be sweated in any occupation, it is a mockery to speak of fair wages and workers' welfare. Viewed from that angle, the passage of the Bill providing for minimum wage rates in certain industries, having unconscionably low wage levels, must be welcomed as an overdue measure of redress to a class of workers who, though the least vocal, are the most exploited.

The European Response to UNCTAD

E. B. BROOK

VIENNA:

IT IS doubtful if the current session of UNCTAD could have been held at a less propitious time. With few exceptions, the major industrial and trading countries are experiencing a recess in their fortunes, an experience sharpened in anxiety by the enforced US economy measures and by the devaluation of the £ which many on the continent uneasily suspect may not be the last measure in this direction.

In this mood of uncertainty and some anxiety these countries are unlikely to respond to so searching a proposal as to remodel the basis of international trade. UNCTAD is the UN's organised attempt to change the existing economic system not merely, as hitherto, to bargain in favour of the industrially developing countries. At the moment, at least, the likelihood of the advanced economies of North America and Europe doing anything like this, with their current anxieties of international monetary crisis, payments maladjustment and a slowing of domestic growth rates is remote if not non-existent.

Yet, from another viewpoint, there is nothing wrong if the economically less fortunate part of the world should meet at this juncture with the prosperous nations when the latter are anxious about their own fortunes. One of the defects of the General session in 1964 was the immense gap in the attitude of the two halves of the world. This attitude was, to a lesser extent, maintained during the long-drawn Kennedy Round negotiations. The attitude, briefly, was that one side had many needs and, in most of the cases, nothing much to offer. The other side had great affluence and little willingness to forgo it even marginally. Bluntly, on the one side was an anxious, sometimes resentful, need; on the other, a sense of plenty and well-being and a rather irritated unwillingness to disturb it.

Today there is, chiefly through a shrinking in the good fortunes of the industrially and commercially developed world, some slight mutual advance towards one another's positions. What is more significant is that Europe and North America know the inevitability of good times not lasting for ever and there are few, if any, governments in these areas that are not anxious. Although this anxiety may increase their caution, it may also broaden their understanding.

Constructive Thinking

There has, also, been a growing fund of goodwill, not of the sentimental and illusory "bhai bhai" type but of deeper and more painstaking understanding of the problems of Asia, Africa and South America. Not only such intimately involved countries as the UK and the USA but also more remotely concerned countries such as Switzerland and Austria know about the problems now and have an increased willingness to think constructively about them. Far too long have ill-chosen words such as "underdeveloped" and "aid" clouded international thinking on the issue—a fact for which North America and Europe are not alone responsible. The emphasis lies now on constructive co-operation, which is a very different matter.

This co-operation needs, however, to be regarded in the light of what is possible. No country anywhere is going to apply the principles of "one world" to such intimate an extent as to spoil its own economy. It is not to be expected of human nature. Moreover the cabinet ministers of today are the vote-seekers of tomorrow. As such they are aware that too much co-operation at national expense would almost certainly see them out of office.

For the small nations of Europe—which most of them are—it will probably not be possible to do much more than

broaden and liberalize the terms of acceptance of some primary products such as iron ore, tea, coffee and spices and some forms of woods. Jute as a packaging material is well on its way out. As regards the light manufactures, these are all produced in Europe's smaller countries. The overall impression of a wealthy, industrially gigantic west needs much modification in detail.

The giants certainly do not extend east of the Ruhr-Turin line and even within the relatively rich north-western European complex running from Paris to Hamburg there is much industry that has narrow base and is less competitive. For several years European experience has been that its small industries are too weak to be successfully competitive. In West Germany, Belgium, France and the Netherlands as well as in Britain, mergers, both small and big, are the order of the day in an attempt to make industry competitive. Certainly from Scandinavia and central Europe, which have nothing big to merge, the amount of co-operation in world trade development that can be offered must be small.

Honest Broker

In Europe itself, interest continues to lie in international trade grouping, particularly in what it is possible to do with Britain still excluded from the Common Market. West Germany is attempting, with the approval of Italy and the Benelux countries, the amiable role of honest broker in Paris later this month. But it is not to be expected that anything significant will happen since Britain itself is not doing anything much more at the moment than sending Lord Chalfont on a speech making tour of the Common Market and EFTA countries.

West Germany and the others would like Britain to accept a gradual association with the Common Market on the way to full membership; but this idea makes little appeal in London and is most unlikely to make any at all in Paris. The reasons for this are quite clear. Britain's new austerity programme does not, by itself, make it suitable for the Common Market membership. There are many words, but few, if any, deeds. Since British military withdrawals from Asia are only scheduled for 1971, the Common Market, especially France, will wait to see if this programme is actually carried out. The British Opposition has made it clear already that, if it wins the next election, this programme will not be carried out.

No one on the continent thinks that even the Labour government drew up this programme voluntarily; circumstances compelled it to do so. To move closer to the Common Market and Europe, Britain needs to disengage itself from distant commitments to increase its internal equilibrium and to shift its policy in favour of Europe, which means away from the USA. It is quite possible that, in the final stages of approach, Britain would need to complete its European qualification by withdrawing also from Libya, Malta and Gibraltar—which is a good deal for any British government to dare attempt. Not only must the final dreams of empire go before Europe regards Britain as European, but also the British themselves would need to give increased evidence of working to raise their own gross national product.

It would also be an error to disregard the fact that de Gaulle, and, after him, France, with meticulously clear thinking, dominate the Common Market and that the other Five, even West Germany, have, in comparison, practically no weight at all. And since the position shows no sign of changing, the likelihood of Britain getting any closer to Brussels remains distinctly remote.

Trade Winds

ROAD TRANSPORT STUDY GROUP REPORT

THE STUDY group on road transport financing under the chairmanship of Mr R. G. Saraiya, has made a special plea for road transport industry to be treated as a 'priority industry' in order to entitle it to a rebate from income tax at eight per cent which should be utilised by the companies and corporations for financing the acquisition of new or the replacement of old vehicles. The study group was set up to make a comprehensive examination of the difficulties of road transport operators in obtaining adequate funds for financing the development of industry as also the relevant aspects of hire-purchase finance business. The existing motor hire-purchase finance companies should, the study group feels, improve their methods of working operations to qualify for assistance from commercial banks and the Industrial Development Bank of India. The group has urged the IDB to consider whether loans and advances granted directly to the road transport operators cannot be refinanced under its scheme of refinancing direct advances to small-scale industries. The commercial banks have been requested to consider reducing their margins in respect of advances, against book debts representing claims against road transport operators and also whether, in the interests of the growth of hire-purchase finance business, the conditions specified in the IDB's scheme for rediscounting of the promissory notes cannot be enforced in relation to their lending. The group has advocated the promotion of transport co-operatives providing specialised service facilities and establishment of co-operative hire-purchase finance societies. It has made a special plea for the restoration of the development rebate to the road transport industry. The development rebate should also be available to state road transport undertakings which should utilise the amount of rebate for acquisition of vehicles. It has also referred to the need for improvement in the quality of roads, replacement of weak culverts and bridges and increasing the thickness of the crusts. It has suggested that early decisions should be announced by government on the various recommendations of the Road Transport Taxation Enquiry Committee so as to help in the evolution of a rational scheme of taxation on motor vehicles operating on inter-state routes.

BHILAI STEEL FOR U.S.S.R.

An agreement for export to the USSR of six lakh tonnes of steel sections comprising beams, channels and angles made at the Bhilai steel plant was signed here on February 12 between Hindustan Steel Limited and Promsryioimport of Moscow. This is the largest single export contract so far entered into by Hindustan Steel with any foreign buyer.

While the agreement provides for the purchase of 600,000 tonnes of steel sections during the three calendar years 1968, 1969 and 1970, a firm contract has been entered into for the export of the first lot of 200,000 tonnes valued at over Rs. 130 million during the calendar year 1968. It will be recalled that Hindustan Steel is already executing an earlier contract signed in April 1967 for export to the USSR of 100,000 tonnes of beams and channels from the Bhilai steel plant. This contract is nearing completion and the last consignment is to leave Indian ports shortly.

INDO-MONGOLIAN TRADE PACT

Under an agreement signed here on February 13 between India and Mongolia both the countries will accord each other most favoured nation treatment and also help each other in respect of actual movement of trade between them. It has also been decided that all payments for current transactions between the two countries shall be effected in convertible

currency unless otherwise agreed to. In case the two governments agree to make payment for some transactions through a clearing account, it will also be permissible. This agreement envisages export from India to Mongolia of items like tea, tobacco, spices, shellac, vegetable oil, canned fruit juices and various industrial goods, viz light industry machinery, electro-technical goods, transport equipment, measuring instruments, medical equipment and pharmaceuticals, chemical goods, textiles, jute manufactures, tarpaulins and other consumer goods. The main items available for export from Mongolia to India are wool, skins of animals, woollen knitwear and woollen cloth, cattle horns, etc. Further studies are to be made in due course about the actual commodities which could be exchanged between the two countries.

FOREIGN AID

Credit agreements for a total amount of \$187.09 million (Rs. 140.32 crores) were signed with foreign countries and institutions during the quarter October-December, 1967, compared to \$130.17 million (Rs. 97.63 crores) in July-September, 1967. Details are as follows:

Name of the agreement	Amount	
	US \$ Million	Rs Crores
UK-India (general purpose) credit for £12 million, dated Dec. 16, 1967	28.80	21.60
US commodity programme assistance 1967, dated October 20, 1967	50.00	37.50
West German DM 250 million credit, dated October 4, 1967	62.50	46.88
Canadian industrial commodity credit for C\$ 10.00 million dated Oct. 27, 1967	9.25	6.94
Canadian Idikki hydro-electric power project for C\$ 19.50 million dated October 27, 1967	18.04	13.52
Dutch general purpose credit dated November 21, 1967	7.20	5.40
Financial export credit*	3.80	2.85
Fifth Belgian credit dated Dec. 22, 1967	2.50	1.88
6th Austrian credit, dated Dec. 16, 1967	3.00	2.25
Austrian food aid credit, dated Dec. 16, 1967	1.00	0.75
Austrian suppliers credit*	1.00	0.75
Total	187.09	140.32

* These credits are suppliers credits and do not require signing of agreements.

With these commitments, the total amount authorised by the lending countries/institutions for India's economic development comes to \$10,122.59 million (\$8350.48 million or Rs. 3976.4 crores before devaluation, and \$1772.11 million or Rs. 1329.08 crores after devaluation). This excludes US commodity assistance (under PL 480) and all grants and drawings from the International Monetary Fund. Of the fresh assistance of \$187.09 million, \$144 million was non-project aid and the balance of \$43.09 million for various projects. The total amount of non-project aid committed, in terms of agreements signed, so far by the consortium countries for 1967-68 amounts to \$298.76 million (Rs 224.07 crores). In accordance with IMF's policy of compensatory financial assistance to member-countries experiencing a temporary shortfall in total export earnings because of circumstances beyond their control, the Fund approved on December 22, 1967, a drawing by India of the equivalent of \$90 million repayable within a period of three to five years. On December 29, 1967, IMF acceded to India's request for a rescheduling of repurchase commitments totalling the equivalent of \$387.5 million. According to the repurchase schedule agreed to by IMF, India

would have to effect repurchases to the extent of \$97.5 million during the calendar year 1968. A new supplementary PL 480 agreement was signed with the US government on December 30, 1967, providing for the import of 3 million tonnes of wheat and 0.5 million tonnes of milo in the total amount of \$215.5 million. Eighty per cent of these imports would be against rupee-payment and the balance twenty per cent against dollar credit repayable over a period of 40 years. According to an agreement signed on December 20, 1967, the Government of Canada wrote off a total amount of Canadian \$10 million, including the principal and interest, against its two wheat loans of 1958. In addition, the Ford Foundation also sanctioned a grant of \$351,000 to Delhi University for the development of its library.

CANADIAN LOAN

An agreement was signed in New Delhi on February 8 for a Canadian loan of C\$21.14 million (Rs 14.70 crores) to India. This loan, together with the fertilizer loan and the industrial commodities loan of C\$ 10 million each signed earlier, completes Canada's pledge of development loan assistance to India for the current financial year. The present loan can be used for equipment, materials and services as may be mutually agreed to by Canada and India. The loan will be free of interest and in-service charges and is repayable over a 50-year period, interest charges and is repayable over a 50-year period, interest comes to C\$730 million in grants and loans.

MORE TRADE WITH IRAQ, HUNGARY

India will tender for supplying to Iraq machinery for woollen textiles, jute textiles, sugar and tyres and tubes. This was decided at a meeting in New Delhi recently between the union Minister for Industrial Development, Mr Fakhruddin Ali Ahmed, and the Iraqi Minister of Industries, Brig. Khalil Ibrahim Hussain. Under its law, Iraq has to advertise for whatever it buys from abroad. Mr Ahmed told his Iraqi counterpart that India now produced sophisticated machines of high quality and could supply complete steel plants, and textile, cement and jute machinery. On its part, India could import from Iraq ammonia and sulphur.

The Hungarian Minister of Foreign Trade, Mr J. Biro, also had a talk with Mr Ahmed. They discussed measures to expand trade between India and Hungary. Mr Biro said that his country would like to buy more Indian products. The balance of payment, at present, was however in India's favour.

COMMERCIAL ARBITRATION SEMINAR

The Indian Council of Arbitration will be holding an international seminar on commercial arbitration on March 18 and 19 at New Delhi under the presidency of Mr L. N. Birla, president of the council and also of the Federation of Indian Chambers of Commerce and Industry. Representatives of a number of international arbitration bodies and experts from various countries will be participating in the seminar. Distinguished lawyers and experts on arbitration in India will also be participating in the seminar.

NDO-IRAN CO-OPERATION

India and Iran will exchange teams of experts to locate areas of economic collaboration for establishing joint ventures in the two countries. A team of Indian experts in small-scale industry, which is now in the UAR, will go to Iran in the first week of March to advise the Iranian government in the development of small-scale industries and the establishment of industrial estates. Iran is planning to send some engineers to India to study areas of possible collaboration between the two countries. These decisions were taken at a meeting held here recently between the Iranian Minister of Economy,

Dr Alinaghi Alikhani, and Mr Fakhruddin Ali Ahmed, union Minister for Industrial Development. The Iranian Minister of Economy listed certain specific projects on which talks on collaboration between India and Iran had progressed. These included manufacture of diesel engines, sewing machines and steel castings. Iran was interested in developing capacity to produce spare parts for its textile machinery and improving its local manufacture. Mr Ahmed said that India could provide capital goods and equipment for a fertilizer plant in Iran, and in return receive from Iran fertilizers. He said India would provide help to Iran in establishing plants for heavy electrical equipment, foundry forge and manufacture of railway wagons.

H.M.T. MACHINES TO CEYLON, U.S.A.

Under an agreement signed recently between Hindustan Machine Tools and the Ceylon Steel Corporation, the latter will act, for a period of three years, as sole selling agents in that country of HMT for "Hindustan" machines. This agreement is a forerunner to the establishment of a machine tool plant in Ceylon under negotiation between the Ceylon Steel Corporation and HMT. According to the terms of agreement, HMT will set up a sales-service centre to facilitate after-sales service to customers in Ceylon for an initial period of one year. Simultaneously, sales-service personnel for the Ceylon Steel Corporation will be trained by HMT to take up this work on behalf of the Steel Corporation. Substantial exports of HMT machines are likely to be covered under the Rs 50 million credit given to the Ceylon government by the Government of India. The Hindustan Machine Tools has also contracted to export 100 pressbrakes, collectively valued at \$120,000 (about Rs 9 lakhs) to the United States.

BANGALORE STOCK EXCHANGE

The government has renewed the recognition to the Bangalore Stock Exchange Limited under Section 4 of the Securities Contracts (Regulation) Act, 1956 for a further period of five years from February 16, 1968. A condition of renewal of recognition is that dealings shall not be permitted on the exchange except for spot delivery and for delivery and payment within a period not exceeding 14 days following the date of the contract.

T. S. NARAYANASWAMI

The late T. S. Narayanaswami, whose rather sudden death on February 14 has robbed our business world of an outstanding personality, was one of the most admired and respected figures in the public life of Madras state. His dynamic leadership as an entrepreneur of vast imagination and drive not only helped to build up the particular business house with which he was directly associated but also contributed to the carving out for Madras state a prominent position in the industrial map of our country.

A director of both Essen Private Limited (managing agents) and India Cements Limited, T. S. Narayanaswami was also connected with Chemicals and Plastics India Limited, South India Shipping Corporation and the Madras Aluminium Company Limited, besides a large number of other leading companies. He was the chairman of the Madras Industrial Investment Corporation and the Cement Allocation and Co-ordination Organisation for the southern region and a director of the Madras Refineries Limited, a Government of India undertaking. He held the office of the Sheriff of Madras in 1965 and was the president of the Hindustan Chamber of Commerce and a member of the Executive Committee of the Federation of Indian Chambers of Commerce and Industry, New Delhi. The Government of India had recently nominated him as a member of the National Credit Council. He was a member of the Madras University Senate and of the Sir C. P. Ramaswamy Research Foundation.

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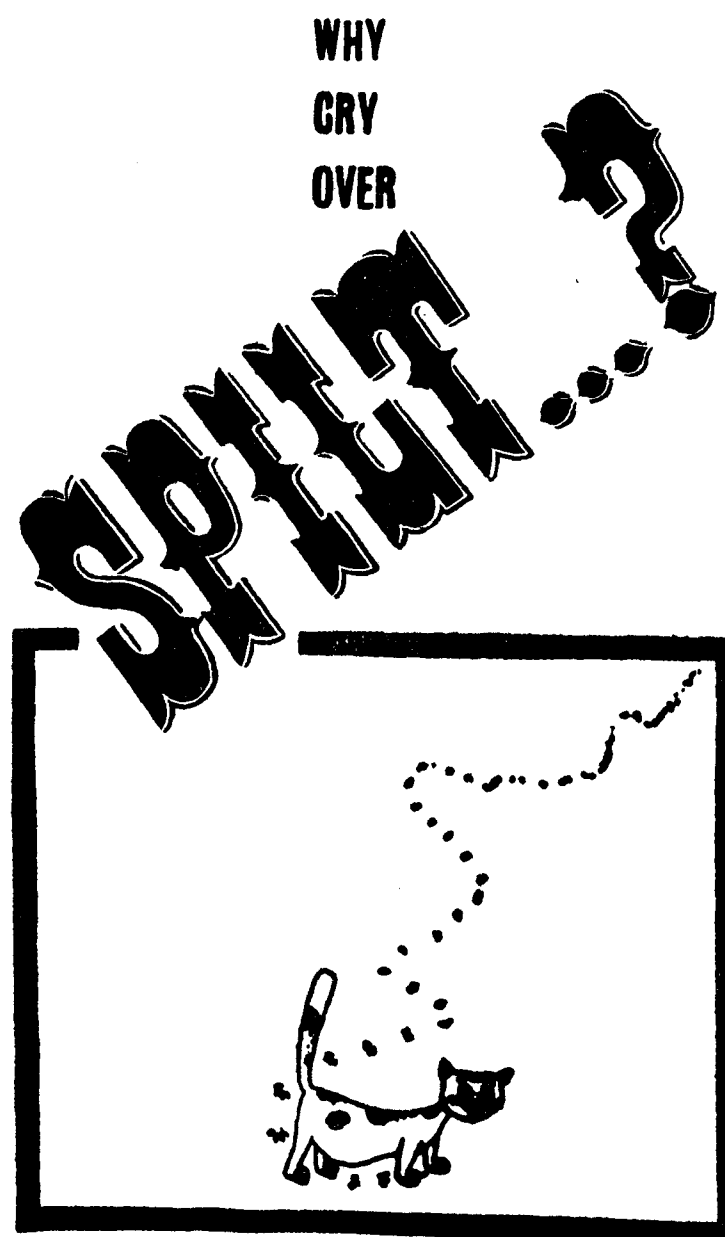
—contains analysis of purchases of textiles by the rural people around Anand particularly in marriage season and of the consumers' behaviour while making the purchases. (Rs. 5)

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The Secretary, Textiles Committee, "Crystal",
79, Dr. Annie Besant Road, Worli, Bombay-18.



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SPILL?
JUST A
WET MOP WILL DO
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Company Affairs

ELECTRIC CONSTRUCTION

ELECTRIC CONSTRUCTION and Equipment Company Ltd has suffered a setback in its progress during 1966-67 due to adverse economic conditions facing the country in general and the engineering industry in particular. Although sales have gone up by six per cent to Rs 6.65 crores during the year ended October 31, 1967, the gross profit has dropped by about 40 per cent to Rs 53.78 lakhs. The rise in sales has been largely due to increase in prices rather than rise in output in physical terms. The slackening of demand for the company's products especially from government agencies who constitute the company's major customers, according to the directors, had its adverse impact on the company's profitability. In fact the company had been forced to make a severe cut in the production of transformers caused by the non-acceptance and on ordering of delivery of goods already manufactured and on order by certain State Electricity Boards. Further factors such as the rise in costs of production caused by high cost of imported raw materials, higher wages without proportionate rise in productivity, unstable labour conditions in particular in West Bengal and the increase in the cost of borrowings, among others, have also tended to reduce the profitability of the company to alarming levels.

Transformers continue to be a product of prominence in the company's range of production. Due to a fall in demand the transformer plants at Cossipore and Vizag could collectively produce only 375,730 KVA against 500,765 KVA in the preceding year. The rotating machinery plant at Barrackpore was compelled to shift production from medium size motors to small size motors in view of the demand pattern prevailing in the country. Efforts are now being made to push up sales during the current year. Production of switchgears could not be stepped up because of poor sales. The lift plant, however, has shown encouraging performance. Though there is a distinct fall in building activity throughout the country, the company has sufficient orders in hand to maintain an adequate production programme. The company of late has also started making high speed lifts which is expected to give a further boost in sales in the coming years. With the aid of a desperate cost reduction programme the company's meter division at Hyderabad has been able to earn modest profits. A slightly better performance is expected during the current year.

The company is striving hard to diversify its production pattern so that transformer does not remain the product of prominence. A scheme to manufacture GLS and fluorescent lamps is already engaging the attention of the directors. The management wish to go ahead with this project subject to the availability of funds. Meanwhile, in view of an already surplus capacity in transformers, the directors have delayed the starting up of the Sonapat plant. In case the demand picks up, the Sonapat plant will be commissioned during the current year.

During the year the company has earned a net profit of Rs 17.28 lakhs as compared with Rs 33.08 lakhs in 1965-66. The net profit has been arrived at after providing for depreciation, development rebate reserve and taxation. The allocation to depreciation reserve was raised from Rs 17.39 lakhs to Rs 18.65 lakhs while taxation reserve was allotted with Rs 6.10 lakhs against Rs 26.50 lakhs in the preceding year. The appropriation to development rebate reserve was reduced by Rs 1.75 lakhs to Rs 11.75 lakhs. After making adjustments a sum of Rs 17.43 lakhs was transferred to general reserve as compared with Rs 39.78 lakhs a year ago. The directors have recommended an equity dividend of 10 per cent for 1966-67 on a higher capital as raised by the bonus issue as against 12.5 per cent paid for the previous year. The equity dividend will claim Rs 12.74 lakhs while the preference dividend will

absorb Rs 3.81 lakhs. The dividends will be paid out of the general reserve.

JAY SHREE TEA

Jay Shree Tea and Industries Ltd has applied to the Controller of Capital Issues seeking permission to capitalise Rs 32.8 lakhs out of its free reserves for issuing 3.28 lakhs fully-paid bonus shares of Rs 10 each to the existing shareholders in the ratio of one share for every four shares held. An one-for-five bonus issue was made by the company in August 1966 by capitalising Rs 21.87 lakhs out of its free reserves.

HINDUSTAN GAS

The directors of Hindustan Gas and Industries Ltd have decided to issue 112,500 equity rights shares of Rs 7 each at par in the ratio of one share for every five shares held. The issue is, however, subject to the consent of the Industrial Finance Corporation of India. The company also proposes to issue preference capital amounting to Rs 12 lakhs in 12,000 (9.5 per cent) preference shares of Rs 100 each at par. The proceeds of the issue will be used to finance the company's expansion programmes.

LARSEN AND TOUBRO

Though the economy is plagued by the slow-down in the tempo of industrial activity and the engineering industry in particular is worst affected by the economic recession, dynamic enterprises continue to expand and diversify their lines of manufacture. An instance in point is Larsen & Toubro Ltd. To finance its ambitious expansion schemes the company has approached the capital market with a public issue of Rs 1.25 crores. The subscription list opened on February 22 and will close on February 29 or earlier at the discretion of the directors but not before February 26, 1968. It is offering 12,500 (1977-79) debentures in units of Rs 1,000 each to the public for subscription for cash at par. The amount is payable in full on application. The debentures will carry an interest of 7.75 per cent per annum. They will rank pari passu in point of security with the existing debentures and will be secured by mortgage of fixed assets and a floating charge on other assets in favour of ICICI as trustees for the debenture holders and will be redeemable at par at three months' notice after December 31, 1977, but not earlier than December 31, 1979. The public issue is fully underwritten.

The company's main business is the manufacture and marketing of plant and equipment for the chemical, pharmaceutical, food processing, steel, cement, paper and pulp industries and for nuclear power stations. The company also manufactures switchgear of various types. It sells and services construction, earthmoving and drilling and mining equipment. Together with its subsidiary and associate companies and in collaboration with leading business houses abroad, the company renders a wide range of highly specialised engineering services in practically every field of industry in the country. The proposed debenture issue will help to finance the contemplated expansion in the company's manufacturing facilities.

Recently the company has added three new products—irrigation panels, MV1 Star Delta starters and TK-type push buttons—to its switchgear range. The products were developed by its own engineers at the company's switchgear factory at Powai in Bombay.

The irrigation panel protects electrical pump sets from voltage fluctuations and short circuits and is the only product of its kind available in the market. It is a complete, instant installation panel. Built in mild steel, it is treated specially to make it corrosion resistant. The panel, being fully tropicalised, can be installed in the open. Each panel consists of a starter, a fuse box and an isolator. The panels are offered

in four starter executions to suit pump set motors from 5 h.p. rating to 15 h.p.

The second new product is the MV1 Star Delta starter. Nearly 80 per cent of the electrical pump sets in use in India are of 5 h.p. to 7.5 h.p. rating. The low-cost MVI Star Delta starter was developed especially to protect motors in the above h.p. range. With single phase prevention inherent in it, the MV1 Star Delta starter is the most compact unit among starters available in India it is a highly competitive product. The starter executions in the irrigation panel include the MV1 also.

The third product, the TK-type push button, marketed under the LT-LK brand name, is ideal for use on control and relay panels. It finds wide application in the machine tools and cranes and hoists industries and industries which require process control. It is of particular use when remote control operation is desired.

INDIAN ALUMINIUM

Sustained growth in demand for aluminium and improved supply of power to its Alupuram smelter has enabled Indian Aluminium Co. Ltd to attain new peaks in production, sales and profits during 1967. According to the preliminary working results, the company's sales have spurted to Rs 21.53 crores from Rs 16.49 crores while the gross profit after providing for depreciation has jumped to Rs 5.44 crores from Rs 3.84 crores in the preceding year. A sum of Rs 1.75 crores was earmarked for depreciation and depletion reserve as compared with Rs 1.69 crores in 1966. The appropriation to taxation was stepped up from Rs 1.44 crores to Rs 2.74 crores while the allotment to development rebate reserve was reduced by Rs 33.8 lakhs to Rs 21.0 lakhs. This leaves a net profit of Rs 2.49 crores as against Rs 1.85 crores in the previous year. The directors have recommended a final equity dividend of 10 per cent on the fully paid-up shares which with the interim dividend of 7.5 per cent makes a total of 17.5 per cent for the year as compared with 19 per cent paid for the previous year. The partly paid-up shares will be receiving a pro-rata dividend of 35 paise per share.

The company has made commendable progress during 1967 in the implementation of its West Coast project which envisages the setting up of an integrated aluminium complex in western India based on the Sharavathy hydro-electric power in Mysore and bauxite deposits in southern Maharashtra.

Construction work on the alumina plant and smelter near Belgaum is progressing satisfactorily. The smelter is expected to be commissioned in the last quarter of 1969 and the alumina plant by the middle of 1970. Construction of the sheet mill in Maharashtra is expected to be taken up soon.

DHRANGADHRA CHEMICALS

Dhrangadhra Chemical Works Ltd, pioneers in the manufacture of heavy chemicals, have commissioned recently the new plant for the manufacture of trichloroethylene and perchloroethylene. This will add two more to the already diversified lines of products which the company is manufacturing at present, namely, soda ash, caustic soda, soda bicarb, salt, liquid chlorine, calcium chloride and hydrochloric acid. Chlorine is the chief raw material for the manufacture of the two-chlorinated solvents and the erection of the new plant is a part of the phased programme of expansion schemes of the company to make use of chlorine a co-product of the company's caustic soda plant located at Sahapuram. In fact, the plant is the outcome of the progressive and planned policy pursued by the management which aims at diversification and development of by-products as well as new ones.

The plant put up at Sahapuram, Tirunelveli district, Madras state, has been designed by Messrs Japan Gasoline Co. Ltd, Tokyo, while the technical know-how for the manufacturing process has been obtained from Messrs Kanto Denka Kogyo K.K. of Japan. Though sophisticated plant and machinery have been acquired from Messrs Marubeni-lida Co. Ltd

of Japan, considerable part of the equipment has been procured from indigenous sources. The plant will have a capacity of 5,400 tonnes per annum.

The new products will find varied and growing applications in a wide spectrum of industries. Degreasing of metals, dry cleaning and extraction of certain materials are among the most important applications of trichloroethylene. Other applications of this solvent are seen in its use as a low temperature heat transfer fluid, organic intermediate and freezing point depressant in carbon tetrachloride fire extinguishing fluid. It is also the starting material in the manufacture of glycolic and dichloroacetic acid. Perchloroethylene finds uses in applications where trichloroethylene is used. But it has, in certain respects, its own properties which render it useful in some special applications.

The company has now taken in hand another scheme for the installation of a plant for the manufacture of beneficiated ilmenite at Dhrangadhra. This plant will have an annual capacity of 30,000 tonnes and it is expected to be completed some time during next year. The company has also plans to undertake the manufacture of polyvinyl chloride. The company has already obtained an industrial licence for this purpose and has transferred it to a new undertaking called the Plastic Resins and Chemicals Ltd. This new company has initiated action for the implementation of the PVC scheme. The plant, when established with a rated capacity of 12,000 tonnes, will be the biggest of the kind in the country.

UNITED CARBON

United Carbon India Ltd has earned a handsome gross profit of Rs 29.25 lakhs during the year ended December 31, 1967, with a steep rise in sales from Rs 7.55 lakhs to Rs 1.36 crores. This was the first full year of the operation of the company's plant. Starting with a little over 50 per cent the plant reached 70 per cent of its rated capacity towards the latter part of the year. The entire output was derived from indigenous raw materials and although these raw materials were not uniformly of the expected quality, thanks to the exacting standards maintained by management, the various types of carbon black produced by the company proved to be of the same high quality as the imported one. The offtake of the company's products would have been much more satisfactory, had not certain of the units of the tyre industry, which is the main consumer of carbon black, been beset with labour troubles. The directors hope that once these units resume full production, the company would achieve far better results. Considering that the plant has worked for a full year for the first time and in view of the unsettled labour conditions prevailing in some of the units of the tyre industry, the directors consider the trading profit for the year as satisfactory.

The directors have provided Rs 46.78 lakhs for depreciation as against Rs 20.35 lakhs in the previous year. With

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the depreciation of Rs 46.78 lakhs adjusted against the profit of Rs 29.25 lakhs, there is a loss of Rs 17.53 lakhs. Together with the previous accumulated loss of Rs 21.65 lakhs, the total deficit of Rs 39.18 lakhs is carried forward.

Plans for expanding the plant capacity are well advanced and are expected to be completed by the end of the current year. When completed, the capacity will be increased by 10 million lb. to 40 million lb.

DELHI CLOTH

The subscription list for the Rs 80 lakh public issue of the Delhi Cloth and General Mills Co. Ltd, was closed on February 3 on being oversubscribed. It offered for public subscription 320,000 sixth redeemable cumulative preference shares of Rs 25 lakhs for cash at par. The subscription list opened on January 29. The entire public issue is underwritten.

MYSORE PORCELAINS

Mysore Porcelains Ltd entered the capital market with a public issue of Rs 23.99 lakhs. The subscription list opened on February 12 and will close on February 28 or earlier at the discretion of the directors but not before February 23, 1968. The company has an authorised capital of Rs 3 crores and an issued and subscribed capital of Rs 100 each. Issue is for Rs 99,98,600—all in equity shares of Rs 100 each. Out of the present issue, Messrs NGK Insulators Ltd, Nagoya, Japan—the foreign collaborators for the project—have been allotted equity shares worth Rs 20 lakhs for the supply of plant and machinery and for the part payment of royalty due to the collaborators. Equity capital of the value of Rs 40 lakhs have been reserved for the Government of Mysore for consideration other than cash towards part payment of the value of assets taken over by the company. Equity shares worth Rs 16 lakhs have been taken up for cash by the friends of the directors of the company. The balance of 23,986 equity shares of Rs 100 each is offered for public subscription for cash at par. The entire public issue is underwritten by the Mysore State Industrial Investment & Development Corporation Ltd, a fully owned government undertaking.

The company was incorporated in March 1966 with the object of manufacturing all types of porcelain insulators with a production capacity of 5,000 to 7,300 tonnes per annum. For this purpose the company has taken over the business carried on by the Government of Mysore with effect from April 1, 1967. Of late, the company has started manufacturing certain sophisticated insulators such as solidcore insulators which were hitherto imported.

The proceeds of the issue will be utilised for part payment of the amounts due to the Government of Mysore towards the purchase of assets and for meeting working capital requirements.

ELPRO INTERNATIONAL

Elpro International Ltd has recently entered into a licence agreement with the National Research Development Corporation of India for the manufacture of ferrite magnets. The company hopes to start production of the new product towards the end of current year. A letter of intent has also been received by the company for the manufacture of cutouts—a line associated with the manufacture of lightning arresters. The company has also applied for an industrial licence for the manufacture of radio isotope therapeutic equipment. It has also plans for the manufacture of dentists' chairs.

Regular manufacture of fluoroscopic and intensifying screens for use in the medical, industrial and scientific X-ray fields was begun at the company's factory from November last. Possibilities of export of these products are being explored. Meanwhile the company has reported a handsome rise in sales from Rs 97.26 lakhs to Rs 1.22 crores during the year ended September 30, 1967. Higher sales and use of better manufacturing techniques and processes have resulted in a net profit of Rs

14.33 lakhs and it is adjusted against the accumulated losses which is now reduced to Rs 16.29 lakhs.

UNIT TRUST

Investments in the units of the Unit Trust of India during the quarter October-December 1967 amounted to Rs 2.68 crores with nearly 8,000 new investors joining the Trust. This compares favourably with the investment of Rs 1.46 crores made in the corresponding quarter of 1966. Units of the face value of Rs 36 lakhs were repurchased during October-December 1967, as against Rs 26 lakhs in the similar quarter of 1966.

The total sales of the units of the UTI during the first six months of the current year ended December 1967 was of the order of Rs 13.46 crores as compared with Rs 7.68 crores in the corresponding half-year ended December 1966 and Rs 9.24 crores during the whole of 1966-67. As many as 208,986 unit holders were registered with the Trust at the end of last year as against 163,000 at the end of 1966.

Meanwhile, the UTI has raised its sale price per unit by five paise to Rs 10.50 with effect from February 14, 1968. The repurchase price, however, remains unchanged at Rs 10.

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 December 16, 1967. The list contains the names and addresses of the licensees, articles of manufacture, types of licence—New Article (N.A.); New Undertaking (N.U.); Substantial Expansion (S.E.); Carry on Business (C.O.B.); Shifting—and annual installed capacity.

LICENCES ISSUED

Special Steel

M/s J.K. Iron & Steel Co. Ltd, Kamla Tower, Kanpur. (Kanpur, Uttar Pradesh): Alloy and Special steel other than stainless steels and High speed, tool, and die steels—16,800 tonnes. (N.A.).

Coal

Shri Dwarka Prasad Marwari, At. & Post Mahagama Distt. Santhal Parganas (Bihar). (Mouzas Hurrah and Fulberia, Distt. Santhal Parganas, Bihar): Coal—6,000 tonnes. (N.U.); M/s Pure Nitchitpur Colliery Co. (Pure Nitchitpur Colliery), P.O. Bansjora, Dhanbad, Bihar): Coal—52,000 tonnes. (C.O.B.).

Radio Receivers

M/s Mulchandani Electrical & Radio Industries Ltd, Sukh Sagar, Sandhurst Bridge, Hughes Road, Bombay-7. (Bombay, Maharashtra): Existing capacity—60,000 nos.; Expansion recommended—90,000 nos.; Final capacity after expansion—1,50,000 nos. (S.E.)

Hand Tools & Small Tools

M/s Harbanslal Malhotra & Sons (P) Ltd, 12, New C.S.T. Road, Calcutta-12. (Calcutta, West Bengal): Metal Cutting Band Saw Blades: Present capacity—15 lakh running feet; Expansion envisaged—45 lakh running feet; Capacity after expansion—60 lakhs running feet. (S.E.).

Woollen Textiles

M/s Chandi Prasad Radha Krishna, 47, D. N. Singh Road, Bhagalpur. (Bhagalpur, Bihar): Woollen Yarn—3000 woollen spindles, other than worsted or shoddy yarn. The production of yarn will be 7,00,000 lbs annually. (N.U.).

LICENCES REVOKED OR SURRENDERED

(Information pertains to particular licences only)

M/s Natwarlal & Company, Rajkot—Motor Cycle and Automobile Timing Chains and Industrial Roller Chains; M/s Hasham Premji, Bombay—Fly Wheel Ring Gears for Automobiles; M/s Pandit Kanahya Lal, New Delhi—Junj, Thermostats and Controls, Expansion Valves, Switches etc. for Refrigeration Compressors; M/s Kanoria Industries Ltd, Calcutta—Cotton Yarn; M/s Shree Sitaram Sugar Company Limited, Calcutta—Sugar.

tariff rates and urged the conference to reach understanding on the essential principles of a general system of preferential tariffs. He also declared that his country was willing to increase its financial aid contributions in line with the one-per-cent formula of GNP recommended by the first UNCTAD session. His government, he added, was also actively promoting private investment in developing countries and would suggest that the latter should increasingly accept systems of mixed and private financing. Moreover, the German Federal Republic would participate in a second replenishment of IDA funds and co-operate in the further deliberations on the problem of supplementary financing.

THE RT. HON. ANTHONY CROSLAND, President of the Board of Trade of the United Kingdom, declared that, in seeking to expand world trade, a special obligation rested on the developed countries both to maintain internal economic growth and to pursue liberal trading policies. The United Kingdom was anxious to take part in resumed cocoa negotiations and believed that there is still the basis of an agreement. His delegation was also anxious to become a party to a new sugar agreement to be discussed at the sugar conference now arranged for April this year.

Recalling that the United Kingdom, together with Sweden, had sponsored in 1964 a scheme of supplementary financial measures, Mr Crosland said that, unfortunately, it was clear that "we are not yet in sight of agreement on a generally acceptable scheme" and that the World Bank's proposals might need still further amendments. His delegation, however, remained convinced that the idea of establishing an international fund for this purpose was basically sound and hoped that the conference would advance the date by which such a fund could become a reality. On preferences, he noted that some developing countries of the Commonwealth accorded reverse preferences to some British exports but indicated that this in no way hampered speedy consideration of a general scheme of preferences. The developing countries concerned, he added, would have to make their own judgements on the question of the existing system now benefiting them in the light of whatever new general scheme would emerge.

Mr Crosland welcomed the plan for special drawing rights agreed by the International Monetary Fund at the recent Rio meeting and he urged the developing countries not to press now for ways to link the creation of liquidity under the scheme with development aid. Although this objective was desirable, the idea remained a controversial one and pressing it would delay the prospect of final agreement, he said. As to aid, he warned that its flow could not be increased simply by setting higher targets but would be more influenced by the taxpayers' belief that this aid was making an effective contribution to development. Despite the United Kingdom's present balance of payments difficulties, which inevitably resulted also in a reduction of its commitments overseas, his government even now foresaw certain increases in the fairly near future: the United Kingdom's contribution to the replenishment of the funds of the International Development Association (IDA), additional aid for food supplies agreed on during the Kennedy Round, and further economic aid to Malaysia and Singapore to help deal with the economic consequences of the United Kingdom's military withdrawal.

MR EUGENE V. ROSTOW, United States Under Secretary of State for Political Affairs, hoped that the conference could make a contribution to the solution of food supply problems, which he termed a basic task of the world economy. The urgency of the problem did not, he said, imply that every country must seek to become self-sufficient in food. However, for some years concessional shipment of American food surpluses had tended to obscure the significance of lagging per capita food output in many developing countries, and the era of vast food surpluses was over.

"Our purpose should be", he said, "to invalidate today's projections of, sharply rising food deficits by altering present

trends in food production and population. "UNCTAD should endorse as policy objectives of high priority the modernization of agriculture in those developing countries where agricultural expansion made economic sense; the build-up of industries allied to agriculture, the application of improved technology; public and private assistance to further these aims; and domestic policies to create the necessary infrastructure and incentives for agriculture".

On preferences, the United States representative said there already was broad agreement on the concept of a generalized temporary system of tariff preferences not involving the granting of reciprocal advantages to the developed countries. He expressed opposition to reverse preferences granted by particular developing countries to particular developed ones, describing this arrangement as an anachronism. The United States, he noted, had agreed with the one country—the Philippines—which granted it reverse preferences to end this arrangement when the present agreement expired.

Mr Rostow also expressed hope that the conference would wish to give a new impetus to the movement for regional co-operation and integration and could explore ways in which specific regional undertakings by developing countries could be matched by a declaration of support by the industrialized nations. On commodities, he agreed that for some tropical products agreements might be practicable and useful but he said that, for temperate products and commodities subject to replacement by synthetics, diversification and other approaches offered the best hope. He expected success in the near future in the negotiations for a cocoa agreement and renewal of the international coffee agreement.

In discussing financial problems, Mr Rostow said that the recent resolution of the OECD on managing the balance-of-payments adjustment process, as well as the prospective implementation of the agreement reached at the Rio meeting of the International Monetary Fund, should strengthen the world monetary system, which was now beset by temporary problems limiting the availability of investment funds. The United States hoped that final agreement would be reached soon on the vital issue of the replenishment of the International Development Association (IDA).

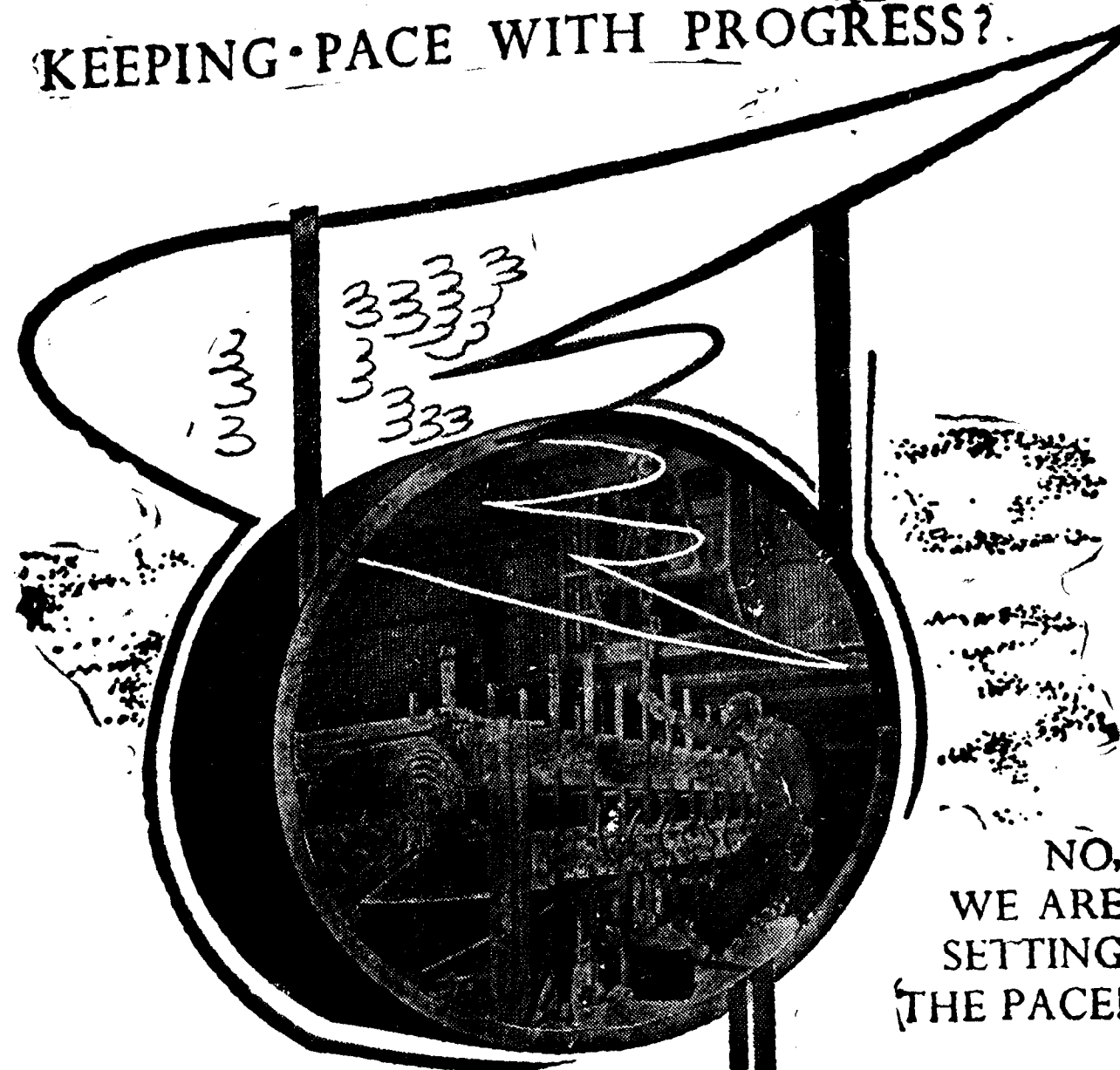
His government, he recalled, had a balance-of-payments problem and this affected its aid programme. But, he added, "we are doing our best to minimize the effects on developing countries of the measures we have been obliged to take in recent weeks". After citing the need to attract larger flows of private resources from the rich nations to the task of development, he urged the conference to launch an enquiry into the legal and policy framework within which private investment and private entrepreneurship are drawn into the development process.

MR ROBERT WINTERS, Minister of Trade and Commerce of Canada, said the work of UNCTAD had demonstrated that development was a joint endeavour. The common aspirations of the members had found expression in an array of programmes and institutions to help meet the complex problems of economic and social growth.

The recent Kennedy Round reflected "what can be done when we join together", he observed. He regretted, however, that following the Kennedy Round pent-up pressures of protectionism had surfaced in some countries. Canada had responded to the needs of developing countries for an increased flow of assistance, he said. Over the past four years its aid programme had tripled; his government had introduced a policy of forward commitments up to five years for countries where it had major aid programmes, and it was prepared to consider further steps to counter any harmful effect which might arise from the tying of aid.

In addition, Canada was examining ways in which it could participate more actively in programmes to help raise produc-

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.



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tion and improve efficiency in agriculture in developing countries. Measures to strengthen and diversify the whole economy were essential to the ultimate solution of agricultural problems. Mr Winters hoped international implications of this question would be considered at this conference. International commodity arrangements could play an important role in the trade prospects of developing countries, he continued, urging new efforts to negotiate or revise agreements on sugar, coffee and cocoa.

There was little logic in encouraging growth in the developing countries through aid while barriers were imposed against the products of those countries, he observed. Canada provided a relatively open market, and proposed to provide free entry for tropical products in the context of a concerted move by all the industrialized countries concerned. On tariff preferences, he said that Canada would play a positive role in the discussions of this subject at the conference but that the complexity of the issues must not be underestimated.

Commenting further on the need for the reduction of trade barriers, Mr Winters said that "the trend towards regionalization of trade could prejudice the achievement of this goal". Regional trade grouping could without doubt have important economic and political advantages, but "inwardlooking groups" were no answer to the problems of either the developing or the developed world.

MR ETSUSABURO SHINA, Japan's Minister of International Trade and Industry, suggested as basic guidelines for the conference discussions the following points: It must be recognized that development was a long-term task and that no simple solutions could be found. It was also essential that a development strategy must embrace the problem as a whole and not be limited to one or two aspects. The concept of a "global development strategy" would serve no useful purpose if it created the impression that somehow a magic formula for development could be found. Thirdly, whether for trade or aid, the joint efforts of both developed and developing countries were required. External aid alone could not generate growth unless matched by sound development policies in the recipient countries. Fourthly, it must be recognized that developed countries did not constitute a homogeneous group any more than the developing countries.

In his view, the effectiveness of UNCTAD should be judged not so much by the scope of concessions made by developed to developing countries as by the degree of common understanding reached by all countries on the complex nature of development and on the general directions in which solutions should be sought. On the subject of preferences, Mr

Developing Countries Ask for Increased Aid

MR HERNAN SANTA CRUZ, Head of the Delegation of Chile, called for the institutionalisation of UNCTAD both as an instrument of governmental action and as a forum of negotiation. Negotiations must begin at once even during the first stage of the conference. Symbolic gestures and vague manifestations of goodwill would no longer do. For long there had been opposition to basic financing, first on the ground that the less advanced countries did not have basic projects and capacity to absorb aid. This persistent lack of vision had led to much frustration and bitterness.

The Charter of Algiers expressed the hope of the less privileged nations which recognised the need of national effort as well as the imperative of modernising their internal structures. They were prepared to contribute to future development of trade and economic relations among themselves through regional and sub-regional integration.

The developing nations, he said, only demanded that the decisions of UNCTAD-I be complied with. There should be aid at a minimum of one per cent of GNP, and supplementary financing to protect against price fluctuations. Long-term debts

Shina said his government had decided to participate, on certain conditions, in a system of generalized and temporary tariff preferences although the granting of preferences by developed countries would considerably affect Japan's economy. His government also wished to see an early conclusion of the pending commodity agreements, particularly the one on cocoa.

Japan would also continue to expand and improve its aid programmes, as shown in the government's 1968 budget proposal which provided for a substantial increase in funds for assistance. Japan would also contribute up to 100 million dollars to a special fund to be administered by the Asian Development Bank, primarily for aiding agricultural development.

MR JOHN McEWEN, Deputy Prime Minister and Minister for Trade and Industry of Australia, announced that, with effect from July 1 this year, more products would be added to Australia's list of selective tariff preferences for manufactured and semi-manufactured products imported from developing countries. There would also be further additions to the handicraft items admitted duty-free. As a result, he pointed out, the total annual quotas would be further increased. Mr McEwen said that Australia—with a population of only 12 million—was now buying annually, for \$2.3 million, items receiving preferences. If the great industrial countries were to take the same action, a simple piece of arithmetic showed how big the trade in these items could become.

Besides this major matter of preferences, he continued, the conference must make progress on the urgent problem of indebtedness. "A reminder of the possible is provided by the Australian example", he observed. Australia's aid was in the form of straight out gifts—not loans, and in percentage of national income, Australia's aid ranked among the three highest. This year, Australia's aid expenditures would increase to about 0.75 per cent of national income.

Commenting on commodities, the Australian Trade Minister said he was "most disappointed at the absence of any really forthcoming attitude amongst the developed countries to the obvious and urgent problems on sugar". Those countries standing in the way of an agreement were carrying "a terrible responsibility". He urged the ministers at this conference to agree on what needed to be done to ensure that the sugar conference scheduled for next April became a full success. "Countries represented here have an obligation to work to ensure that early action will be taken to overcome the trade problems in sugar, cocoa, oil seeds, vegetable oils, bananas, rubber, sisal and hard fibres", Mr McEwen declared.

should be consolidated at longer terms and lower interest, technology should be transmitted without legalistic and other restrictions and there should be a transformation of the maritime transport system.

MR JOSE DE MAGALHAES PINTO, Foreign Minister of Brazil, speaking of external obstacles to national efforts in development, cited the example of nuclear energy. In this field, he said, the "superpowers maintain a monopolistic policy" and imposed on developing countries a discriminatory system of international control. Brazil could not accept this position.

There was also discrimination in international trade with the result that poor countries were contributing to the wealth of industrialized countries. This was like a blood transfusion in reverse. It was imperative he said, that trade ceased to be a means of exploitation of the productive efforts of developing countries.

A set of norms must be approved to guide negotiations for a system of preferences for the exports of manufactured goods from developing to developed countries, he said. International trade in primary commodities must be stabilized. The

conference should adopt a solemn commitment on establishment, within short-term target dates, of a programme for negotiation of agreements on primary commodities. As regards financing, he supported the transformation of the World Bank into one dedicated exclusively to the needs of developing countries. UNCTAD itself should be made as soon as possible an international organization of trade and development with full negotiating and executive capacity.

MR ABBEBE RETTA, Ethiopia's Minister of Commerce and Industry, urged all groups of countries represented at the conference to seek mutually agreed solutions to problems of economic development. The Algiers meeting, he emphasized, had aimed not only at harmonizing the attitude of the developing countries but also sought to lay the foundations for their future co-operation with the developed world.

Commenting on the various issues on the agenda, the representative of Ethiopia, referring to financial issues, said that in some cases governmental reluctance to allow access to private capital markets for bond issues tended to inhibit the contribution of the private sector to multilateral agencies. He suggested that relaxation of barriers to bond flotations, as well as preferential access for multilateral and regional financial institutions to private capital markets, would make a valuable contribution to the expansion of the activities of these institutions.

Among the steps he considered necessary to be put into effect were: a scheme for preferences that would include all manufactured and semi-manufactured products, particularly processed agricultural products and processed raw materials; removal of quantitative restrictions; establishment within UNCTAD of machinery to continue inter-governmental consultations to increase access to markets of primary commodities; and joint consideration of measures for trade liberalization and price stabilization.

DR ABDEL MONEIM EL KAISOUNI, Minister of Planning of the United Arab Republic and President of the first session of UNCTAD in 1964, underlined that the first conference had been held in an atmosphere of high hopes but that except for the establishment of the UNCTAD machinery, no significant progress had been achieved in implementing the resolutions and recommendations adopted nearly four years ago. "Our duty", he declared, "does not merely consist in setting targets whether for growth, exports, financial aid and what not. It is of no less importance to design, in concrete policies, firm commitments and agreed time-tables for the achievement of these ends." In this, he added, the conference was fortunate to have before it the Charter of Algiers which constituted the programme of action unanimously agreed upon by the Group of 77.

Elaborating on some of the most urgent steps to be taken, the representative of the United Arab Republic said it was necessary to agree in this conference on the principles to be embodied in the various commodity agreements—such as for cocoa, rubber, sugar—and to set up a time table for them; to settle the differences which remained within the advanced and also within the developing countries on the matter of preferences; to set up a mechanism that would follow up, on a periodical basis, the implementation of the target of one per cent of net financial transfers from advanced to developing countries; and to agree on the question of rescheduling the debts of the latter.

The developing countries, Mr El Kaissouni emphasized, fully recognized that the major responsibility for development lay with themselves. He pointed out that the total net outflow of financial resources from advanced to less developed countries—"however important it may be"—had amounted only to about three per cent of the combined national income of the richer nations.

MR FRANCISCO BIBEIRO-AYEH, Commissioner of Trade of Ghana, after observing that the 1964 UNCTAD session had demonstrated the need for the developed and developing countries to get together for their mutual benefit,

urged the current conference to concentrate on the specific difficulties of the developing countries, as reflected in the Algiers Charter.

Ghana appreciated the domestic problems of the developed countries, but believed "a more responsible use of world resources" would help solve those problems, he stated. If funds spent at present on the arms race and space research were diverted to the improvement of domestic conditions in the developed countries concerned and to increased aid to developing countries, the present unsatisfactory situation would be greatly improved, he declared.

The matter of cocoa was of particular concern to Ghana, he observed. Ghana had hoped that, by the time this conference began, a commodity agreement on cocoa would have been reached, as "the outward and visible sign of a new era in international trade and human understanding". However, long negotiations had been rewarded by complete frustration. "We have a right to demand a cocoa agreement now," he declared.

He was aware that measures taken by the "rich" countries to help themselves such as the Kennedy Round cuts, would benefit the developing countries to some extent. But the speed with which the wheat agreement was concluded, seen against the background of the failure in reaching a cocoa agreement, led his delegation to suspect that the interests of the Third World received third place in the counsels of most of the industrialised world.

MR ALHADI ALI MONGUNO, Commissioner for Trade and Industries of Nigeria, suggested negotiating machinery be set up at the conference to resolve and harmonise views which might remain outstanding from the work of the different committees. There was no reason why consultations could not be started here to resolve outstanding problems in the way of a cocoa agreement. Nigeria shared the hopes of her colleagues in the Caribbean who faced a similar problem in relation to sugar and other countries who had a problem with rubber. He hoped the conference would accept in principle the use of buffer-stock mechanisms especially where such techniques could be proved to be suitable for commodity stabilisation schemes.

He spoke of the disappointment of the people of the developing nations that the decisions of UNCTAD-I had not been carried out. There had been no real progress in commodity agreements. The failure on cocoa was a case in point.

This conference should be able to set a time for the starting of the supplementary financing scheme. The International Monetary Fund should be reformed to ensure the full participation of developing countries in all future talks on monetary reform and the administration of special drawing rights.

MR J. T. UMBA DI LUTETE, Vice-Minister for Foreign Affairs of the Democratic Republic of the Congo, commented that, ironically, under-development had been accentuated in the Decade of Development. The purchasing power of the developing nations was going down. Soon the burden of debt might equal the availability of net resources.

Stating that the fate of millions of people depended on trade and development, he said there was need of a global strategy of development with the advanced nations making concessions.

While supporting a generalised system of preferences, he said trade between developing nations be intensified. In this connection he mentioned the limits to the practical possibilities of trade between African countries resulting from monetary zones, bilateral agreements, prices and quality. Goodwill, he said, would be measured by the extent to which trade barriers were eliminated. Conditions of assistance had become prohibitive and even degrading. Unless there was increasing evidence of understanding in this and in trade, the developed nations might themselves suffer in the long run, he warned.

MR B. R. BHAGAT, Minister of State in the Ministry of External Affairs of India, said that the task of the conference was to evolve a development policy responsive to the aspira-

tions of the youth of today, which would revive and strengthen their confidence in the efficacy of international co-operation. The basic elements of such a policy had been set forth in the Algiers Charter.

In the course of his statement, he put forward a number of proposals to which India attached particular importance and for which it looked to the conference for positive action. Among these were: conclusion of an international agreement on cocoa and placing the future of natural products on a sounder basis. He proposed the creation of a fund under UNCTAD auspices for this purpose, the size of which would be in relation to the expenditure incurred by the advanced countries on the development of synthetics.

India also looked forward to negotiations being launched for the removal of tariff and non-tariff barriers and the adoption of practical measures for the stimulation of consumption. A decision should also be taken on buffer-stock financing and for the diversification of monoculture economies. A scheme of general non-discriminatory and non-reciprocal preferences in favour of all the developing countries for their manufactures and semi-manufactures should be expected. India also hoped that agreement would be reached on the ground rules, machinery and time-table for international negotiations to give expanding access to the industrial products of developing countries to markets in the developed countries.

Mr Bhagat urged that there should be an increase in the volume of net capital transfer to developing countries, and, while the difficulties confronting some industrial countries should be borne in mind, "should we not take a comparative view of the difficulties of the rich and the privations of the poor and determine our priorities accordingly?" In this regard, he suggested that the target should be increased and more closely defined. A minimum percentage of capital flows should be channelled through multilateral agencies. He also suggested that a large proportion of aid be made available against repayment in local currencies.

Mr Bhagat saw no justification for the maintenance of tied aid by countries which did not face balance-of-payments difficulties. Dealing with shipping Mr Bhagat suggested that a study, under the auspices of UNCTAD, be made to identify the sea lanes of the developing countries where the trade potential was not being realized due to inadequacy of direct shipping services.

Mr Bhagat said that trade between the socialist countries and the developing nations continued to be the most dynamic sector of world trade and India was particularly gratified with the development of economic co-operation with the socialist countries. He underlined the national responsibility of developing countries to promote their own development.

NAWABZADA ABDUL GHAFUOR KHAN, Minister of Commerce of Pakistan, declared that the developing countries were now in a better position than ever before to take advantage of trade opportunities and to utilize external assistance more effectively. Therefore, they could not understand the growing feeling of disillusionment with the aid programmes and the tendency in the west to re-assess its whole commitment to foreign assistance. Despite the balance of payments difficulties of some developed countries, the prosperity in the developed world today was at a level never before attained and the changes sought by the developing ones were well within the capacity of the industrialized world.

Pakistan's third five-year Plan, he noted, aimed at eliminating dependence on foreign aid in another 18 years but its outcome depended also on international co-operation. The entire developing world was also striving towards self-reliant growth. He proposed that the amount of debt service payment by a developing country to a creditor country should be deducted from future credits and only the difference between the gross credit and the debt service liability should be available for use by the borrower. This, he said, would

enable a developing country to pay earlier tied loans by new tied loans from the same source and to that extent avoid the loss implicit in repaying a tied loan in convertible currency. At the same time, such an arrangement would not impose any immediate burden on the balance of payments of creditor countries.

MR J. R. JAYEWARDENE, head of the delegation of Ceylon, urged adoption of an immediate programme for implementing the one per cent target of GNP flowing to developing countries. He strongly supported the proposal of Dr Prebisch that a separate target be established for what was the only predictable and controllable element in the flow of financial resources for aid.

Mr Jayewardene said besides general and non-discriminatory preferences for manufactures and semi-manufactures from developing countries, there should be a lifting of differential barriers on processed primary products. He commended Australia for granting preferential treatment to goods from developing countries. Like the Brazilian delegate, he suggested that UNCTAD should also function as a negotiating body to help implement settled programmes of action. Ceylon attached considerable importance to the trade between the socialist and developing countries. The Algiers Charter, he declared, was a resolve of unity for a global strategy of trade to help economic development.

MAJOR GENERAL MOHAMAD JUSUF, Indonesia's Minister of Trade, asked the conference to concentrate on the central issue of how food production could be increased in developing countries to meet the needs of their expanding population. He suggested three points: first, technical and financial aid from developed countries—including fertilizers, better seeds and agricultural equipment—should be expanded for areas where greater food production would make economic sense; second, increased food production efforts should be made by the developing countries themselves; and, third, while food aid must be continued, it should not jeopardize the commercial interests of food-exporting countries of developing regions.

In addition, the representative of Indonesia stressed the need for regional co-operation and expansion of trade among developing countries. As the Charter of Algiers represented the position of all developing countries, he considered that it could be used as a basis for negotiations in fields such as trade, finance and shipping.

Further efforts should also be made to encourage the role of private investment in promoting economic growth in developing countries, he said.

MR YEO BENG POH, for the delegation of Malaysia, said that current political and economic difficulties should spur UNCTAD-II to redouble efforts to reverse trends which, if allowed to continue, would lead to a "disastrous collision between north and south." In his view, priority should be given to problems of trade in primary commodities and, in particular, the severe competition primary commodities faced from synthetic substitutes.

A stock solution proposed for the problems of primary producers was diversification of economies; but the capacity of developing countries to diversify was severely limited, he pointed out. Malaysia would like UNCTAD-II to examine the proposal that developed countries, as well, should be asked to rediversify their economies in response to intractable difficulties faced by developing countries.

As a minimum, UNCTAD-II should: endorse the conclusions in the report of the Exploratory Meeting on Rubber held in Geneva last December; set up an Action Committee on Rubber to consider implementing the recommendations in this report (TD/39); and recommend financial measures to compensate natural rubber producers for their serious foreign exchange losses.

MR SUNTHORN HONGLADAROM, Minister of Economic

Affairs of Thailand, urged early adoption of an effective supplementary finance scheme. Otherwise, he said, substantial reductions of imports from developed countries would be inevitable. He also emphasized the need to agree at this session upon a programme of specific commitments envisaging not only the observance of the "standstill" principle but also the gradual removal of restrictions and charges applied by developed countries to primary commodities and semi-processed primary

products originating exclusively from the developing countries.

"We fully realize that economic development rests primarily on the developing countries, but whether our self-help efforts will meet with success will depend in a large measure on the international environment in which these efforts are made," the representative of Thailand declared.

Socialist Countries Believe in Demolition of Trade Barriers

MR N. S. Patolichev, Minister of Foreign Trade of the Soviet Union, expressed the hope that the second UNCTAD would contribute to increased co-operation among nations on the basis of equality. He also hoped that the conference would facilitate participation of all countries in world trade and economic relations, free from discrimination and restrictions, and that it would adopt recommendations aimed at assisting developing countries in solving their problems.

Unfortunately the conference was being held in an aggravated international situation, the representative of the USSR stated. "The aggression of the USA in Vietnam continues" not only menacing world peace but also tangibly damaging the economic progress of many countries. The Soviet delegation, he continued, did not agree with the United States view that statements on the Vietnam situation were irrelevant to the Conference. Undoubtedly relaxation of international tensions would lead to reduction in war expenditures and to the switching of the resources thus released to peace needs.

UNCTAD was further hampered by the fact it had not yet become a genuine universal organisation, he said. The fact, for instance, that such an industrialized country as the German Democratic Republic was not a member could not be regarded as normal.

Mr Patolichev said the establishment of UNCTAD had been a significant victory for progressive forces. Unfortunately, however, it could not be said that its establishment had yet brought profound changes in international economic co-operation, and the present state of international trade aroused serious concern. The root cause of the deterioration in world trade problems lay mainly in delay in implementing, or in neglect of the Geneva recommendations by a number of western countries which had recently introduced "measures seriously damaging the foreign trade of developing countries", he declared. The Kennedy Round negotiations had failed to bring tangible results for developing countries, and attempts were being made to diminish the importance of UNCTAD, in his view.

The Soviet representative said the so-called "liberalization" of the trade of some western countries had not in fact brought about cardinal changes towards removal of discrimination in trade with socialist countries. It was wrong, he stated, to assume that greater economic co-operation between east and west would jeopardize the interests of the third world. On the contrary, normalization of relations could only favourably influence the development of international trade to the benefit of all countries.

On commodity problems, he supported proposals for the removal of tariff and non-tariff barriers imposed by developed capitalist countries on exports of developing countries. His country had considerably increased its import of commodities from developing countries, and he was authorized to say that the Soviet Union would continue its policy of increasing purchases of commodities from those countries.

Stabilization of world commodity trade on the basis of fair principles remained "the number one task of UNCTAD". Mr Patolichev said. His country stood for stabilization agreements on such important goods as cocoa, sugar, oil seeds, cotton, citrus, bananas, lead and zinc, petroleum, copper, iron and manganese ores, and hard fibres. On manufactures and semi-manufactures, he said the Soviet Union would continue

to purchase these products from developing countries, in particular in repayment of credits for the construction of enterprises built with Soviet assistance.

MR FRANTISEK HAMOUZ, Czechoslovak Minister of Foreign Trade, said that, despite the many positive results of the work of UNCTAD, not much success had been achieved in eliminating barriers standing in the way of solving problems such as food supplies, nor had there been significant advance since UNCTAD-I toward universal acceptance of its set of principles on world trade relations and policy. Moreover, problems concerning economic and trade relations between socialist and advanced capitalist countries remained.

The understandable uneasiness of the developing countries had found expression in the Charter of Algiers, he said, commenting that it was undoubtedly an important document although it had not taken full note of the different positions of the socialist and capitalist countries in the historical development of international relations.

Despite the principles of trade evolved at UNCTAD-I, some countries still sought to maintain their privileged position to the detriment of others, he said. In mentioning the progress of his country's economic relations with the developing nations, he said some of the latter did not accord Czechoslovakia equal treatment in the exports of their products and in access of Czechoslovak goods to their markets. He also indicated that his country was ready to discuss all reasonable suggestions for normalising east-west trade which would influence favourable economic relations between these regions and with developing countries.

He said Czechoslovakia would continue to promote market and price stabilisation of commodities through active participation in commodity agreements and in the conclusion of further long-term trade agreements. It would continue to create conditions for an increase in the share of finished and semi-finished goods in Czechoslovak imports from developing countries and was ready to take part in a general, non-discriminatory, non-reciprocal, temporary system of preferences.

He declared that the decisions of the conference could be fulfilled not solely by unilateral action of the countries concerned but by co-ordinated joint efforts of the interested countries on a bilateral and multilateral basis.

MR JANEZ STANOVNIK, head of the delegation of Yugoslavia, said despite the encouragement given by UNCTAD-I there was continuing disparity in the world economy. Industrialised nations had found it more interesting to trade among themselves than to trade with the developing nations. The Common Market of the Six, the Free Trading Area of the Seven, the US-Canada and other measures had, in effect, transformed the inherited rule of the most favoured nation, the cornerstone of equality of treatment, into the rule of equality of discrimination.

The historic challenge for UNCTAD-II was to outline a strategy to link the three groups—the market economy countries, the socialist areas and the developing countries—into an economic whole of equitable economic co-existence.

If imports were to be financed by exports, there must be, together with structural adaptation in the developing

countries, matching effort in the advanced areas. This was lacking, he said. Another dilemma was that modernisation as a means to development meant in many cases unbalanced growth in agriculture. The less advanced areas, after sacrificing development for agriculture, found themselves pushed out of third markets.

In the financial sphere, the low percentage of GNP earmarked for aid was accompanied by the high percentage of debt services and by 1970 the debt service of about seven billion dollars would be just what the gross lending, as projected now, would be. A further contradiction lay in tied loans without any corresponding tying of the obligation to accept repayment in the form of goods of new production

Nordic Countries for Untied Aid

MR KARE WILLOCH, Norway's Minister for Commerce and Shipping, promised that Norway, in close co-operation with the other Nordic countries, would put the tariff reductions resulting from the Kennedy Round for imports from developing countries "speedily into effect" in line with the request in the Charter of Algiers. Likewise, Norway agreed that after the "relative success" of the Kennedy Round the time has come for a further attack on trade barriers and would work towards an understanding during the present session on the main elements of a general preferential system giving equal opportunities to all developing countries.

He indicated that Norway would welcome efforts to extend the scope of joint operations of GATT and UNCTAD beyond the field of trade promotion in which the co-operation between the two organisations had already been strengthened. On the question of financing, the representative of Norway promised support of "any realistic replenishment of the IDA", for efforts "here and now" to reach agreement on a mechanism to be used for supplementary financing, and for specific measures designed to alleviate the debt burden such as improvement of the terms of aid and reduction of aid-tying.

Stressing his country's great interest in all matters relating to maritime transport, the representative of Norway declared that the "logical" policy should be to remove restrictions also on international shipping, in order to reduce costs of

UN Agencies Are for Multilateral Economic, Technical Aid

U THANT, UN Secretary-General, referred to suggestions that the timing of UNCTAD-II was unfortunate both on political and economic grounds. It could scarcely be suggested, he commented, that the Conference had been called with undue haste and if there were difficulties ahead they should be frankly discussed at this session. "If we face the possibility of retrogression, the need for the conference is surely even greater, not less". The political and economic strains in the world were inter-dependent and there must be a forward move on both fronts. "The most important ingredient of international security is economic and social development, and not the armaments and armed forces, however powerful the latter may seem to be," declared the Secretary-General.

It had to be admitted that the period since UNCTAD-I had largely been one of "frustrated hope". U Thant then went into the question why, on the one hand there had been success in two major areas—the Kennedy Round negotiations and the agreement reached at the Rio meeting of the International Monetary Fund—whereas it had not been possible to expand efforts in much more basic problems of world economic development. There were two main reasons for the difference. First, the agreements reached were mainly of significance for economic relations between the developed countries which had a larger volume of trade and monetary exchanges with one another than with the developing world. Secondly, the

launched with the tied loans. Mounting restrictions prevented the marketing of these new products but there was still the insistence on repayment.

Urgent action was needed to check and reverse this trend toward disintegration. Agreement on development strategy must be forged through a system of negotiated obligations; practical measures must be taken to implement a scheme of preferences, increase development financing, improve the terms and ease the burden of debt, support trade expansion among developing nations, stabilise raw materials markets through commodity agreements—this was the programme of the Algiers Charter.

transportation and thereby help to carry products of the developing countries to the world markets in the cheapest possible and most efficient way.

MR GUNNAR LANGE, Sweden's Minister of Commerce, announced that his government would next month submit to Parliament a plan according to which official appropriations for development assistance would be increased annually by about 25 per cent to reach a magnitude of one per cent of gross national product in the fiscal year 1974-75.

He suggested that when proposing a new assistance target in terms of GNP, the conference should establish a separate target for the official component of aid flows, which in turn could ultimately lead to the introduction of an aid-component target.

With respect to aid-tying, he suggested that donor countries should first agree on a stand-still agreement and after that start negotiations on a multilateral plan for a gradual reduction and eventual elimination of aid-tying. The plan, he suggested, should contain special provisions with regard to deficit countries with serious unemployment problems. A good start, in his view, would be to allow producers in developing countries preferential treatment under tied credits. Also, aid should be untied in proportion to the donor country's GNP rather than in proportion to its total aid—so as not to discriminate against generous donor countries.

developed world continued to regard its economic relationships with the less developed countries as a one-sided affair in which concessions were granted but not received.

One must hope, he said, that the time was not far distant when all the developed countries would feel able to emulate those among them which had not only accepted the assistance targets of the UN General Assembly and UNCTAD but had already implemented them or announced their intention to do so within a fixed period of time.

People were apt to forget, continued the Secretary-General that "the developed countries stand to gain no less than the developing countries from a rationalization of trade relations between them." Although the developed countries were short of labour and even of capital "yet they are protecting the inefficient use of both these resources in sectors of agriculture and industry which could be much more efficiently supplied from developing countries." Restrictions were being maintained and even intensified because of the fear of short-term difficulties. He emphasized that it was "not simply the developing countries that suffer from all this, but the developed countries as well."

UNCTAD could be particularly effective since it included all the main groups of countries—developed market economy, socialist and developing; and he had been struck by the opportunities for joint approaches by socialist and private enterprise

countries to the problems of development. Ideological differences need no longer deter undertaking specific schemes of co-operation across political frontiers. He foresaw many ways in which the trade and aid policies of the private enterprise and socialist parts of the world could be brought together. The time was approaching when socialist participation in multilateral aid could be considered as a logical step forward from their present participation in multilateral technical assistance and a useful complement to their bilateral endeavours. However, there would have to be, among other matters, a solution of difficulties now besetting east-west trade and payments.

"The real question," declared the UN Secretary-General, "is not whether development will occur, but how it will occur and within what international framework." The world was entitled to expect a clearer definition of the objectives to be achieved in the longer run and an indication of the steps each country and group of countries intended to take for their realization.

MR GEORGE D. WOODS, President of the World Bank, declared that "to prevent an intolerable economic and political fission of the world, the development of the poorer nations requires a more effective and constructive participation by the developed nations—and on a high priority basis". Up to now, he said, bilateral programmes of assistance had had as one of their primary objectives helping the high-income countries themselves, and some aid, by doing the wrong thing at the wrong time, might actually have retarded economic growth.

To render development assistance more effective it must be in future more concerned with helping the poorer countries evolve the technologies "appropriate to their own circumstances" rather than simply seeking to transfer to them the methods of the high-income countries, he observed. Secondly, "greater modesty and realism in expectations" were called for. The third and immediate change needed was improvement in the amounts and terms of capital transfers.

"The response to good performance in a developing country," Mr Woods said, "should be massive application of development finance to multiply production and achieve lasting economic momentum."

Mr Woods also urged a better distribution of effort not only among the financial institutions but throughout the structure of international organizations, all of which ought to take "an anti-proliferation pledge."

The speed at which development moved forward, Mr Woods concluded, would depend much on the spirit and imagination in which the older and richer countries, the newer and poorer ones, and the international organisations all conduct their common efforts.

MR EDBAR JONES, The IMF's Geneva office director, told UNCTAD that reservations of the group of 77 to the compensatory financing plan had been noted but since the plan had been in operation for 18 months only, the IMF felt that more experience was needed before any further changes could be made. Mr Jones appealed for a realistic attitude both by the debtor and the creditor nations in facing the many problems involved if the poorer countries were not to be crippled in their attempts to advance.

He said the IMF was always prepared to discuss the proposals for supplementary financing. Mr Jones said the problems of commodity price fluctuation were under examination. A report will be presented to the board of governors at their 1968 annual meeting.

The IMF was aware of the burden and disruptive effects on the balance of payments of rising external debt services

which checked overseas capital inflow and impaired economic growth.

Surveying the international economic scene after the first UNCTAD, Mr Jones said the developing countries faced population pressures on scarce resources, inflationary trends and continuing balance of payments difficulties.

Reviewing IMF operations during 1967, Mr Jones said the drawings made on the fund during year totalled \$835 million. Twenty-nine fund members, mostly developing countries, obtained financial assistance in 1967. Some of those drawings were made under the facility for the compensation of export fluctuations.

PAUL BARTON, spokesman of the ICFTU delegation, said that "the ICFTU was instrumental in making several delegations, which had approached the whole idea of such a conference with great distrust, change their mind during that memorable summer 1962 session of ECOSOC (UN Social and Economic Council) where unanimity was finally reached".

Free trade unions propose a far-reaching reshaping of the international division of labour. The unions propose that all advanced countries establish jointly a fund which would help finance adjustment between the developed countries economies and those of developing nations. The contribution of each country to the fund would be determined not only by its national income but also by the share of imports in its national consumption. Protectionist nations would thus be obliged to help the liberal nations to carry the burden of structural adjustment.

The ICFTU also proposes a fresh approach in the field of the much needed trade expansion and regional integration among developing countries.

Mr Barton also submitted a memorandum to UNCTAD-II on behalf of his confederation. The memorandum makes far-reaching and original proposals regarding the tariff preferences for manufactured and semi-manufactured goods exported by developing countries, and the establishment of national shipping services by these countries.

MR FELIPE HERRERA, President of the Inter-American Development Bank, said the Bank was an expression of regional co-operation and it had become the principal source of international financing for economic and social development projects in the region. It was contributing over 2,500 million dollars to finance 450 projects with a total value of more than 6,000 million dollars throughout Latin America.

On financial aid in general, Mr Herrera said the problem lay less in the method of channelling aid than in its volume, the adequacy of its terms and its applicability to the needs of developing countries. He suggested that multilateral machinery for aid would be given a valuable boost by the removal of certain obstacles with which organizations like the Inter-American Development Bank had to contend.

As a means of strengthening resource mobilization techniques, Mr Herrera suggested how convenient a group of industrialized countries, not members of the Inter-American Bank, might find a multilateral fund, administered by the Bank in accordance with terms to be discussed by both sides. He recalled that the Bank had submitted a proposal to the Executive Committee of the European Common Market which might use the European Investment Bank in this way.

On the question of preferences, Mr Herrera said that the mere institution of trade preferences for the manufactures and semi-manufactures of the Third World would not automatically create the possibility of a great increase in exports on suitable terms. For that, the developing countries must broaden and increase the efficiency of their industrial base.



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Cow	Rs. 386 lakhs
Plantations	Rs. 277 lakhs
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Railways	Rs. 72 lakhs
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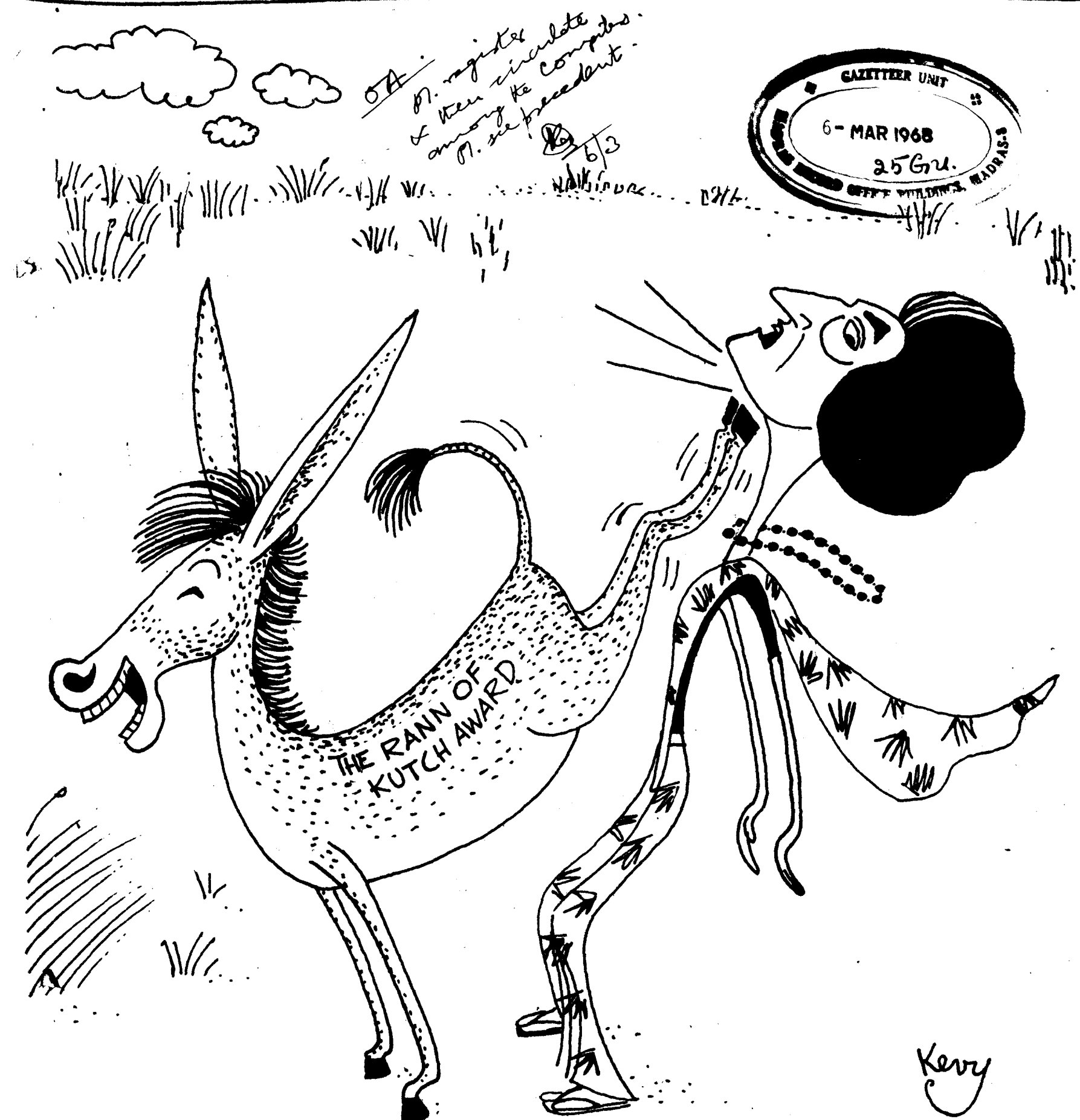
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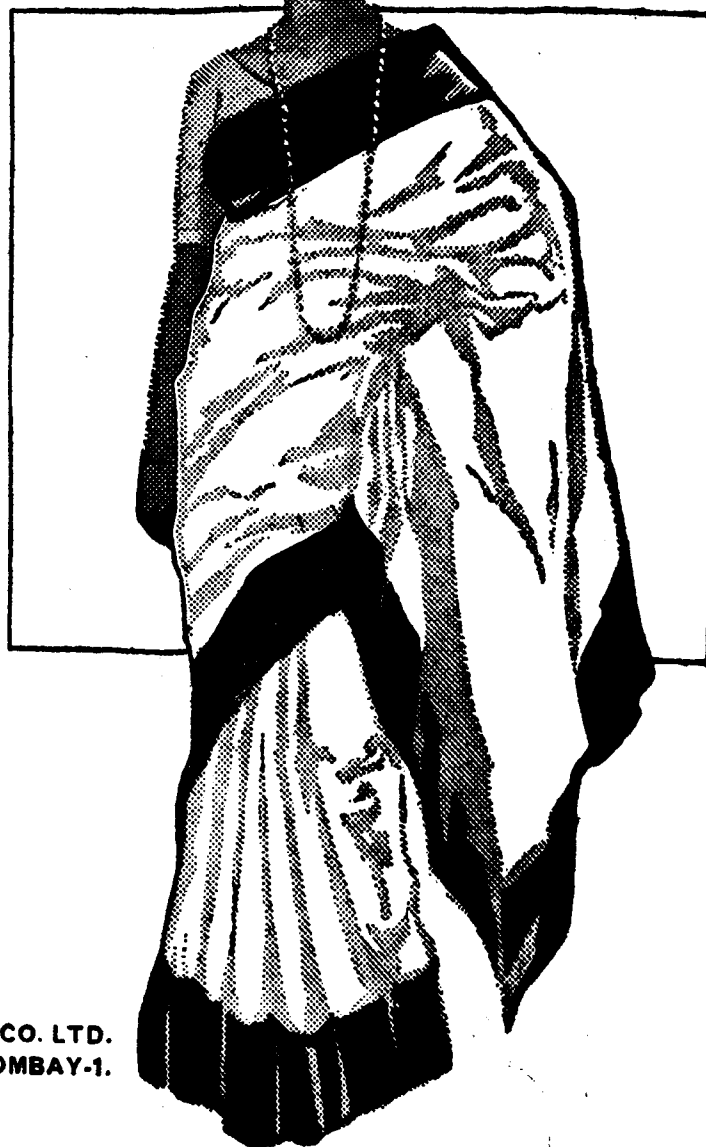
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EASTERN ECONOMIST

MARCH 1, 1968

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On Budget Eve

RECENTLY, IN *Financial Times* (London), its US Editor, Mr Joe Rojaly, writing from Washington, bluntly stated that "a team from the International Monetary Fund will be looking over the shoulder of Mr Roy Jenkins, Chancellor of the Exchequer, while he makes his preliminary budget calculations next week." Who or how many have been or are looking over the shoulder of Mr Morarji Desai these days as he goes through his pre-budget exercises we do not profess to know, although interest, both national and international, in such plans as the Government of India may have for picking up the broken thread of development is, no doubt, intense as well as widespread. At about the same time as this issue of *Eastern Economist* reaches its readers the central budget would have been presented in Parliament and broadcast across the nation. The compulsions of the printer's deadline however make it necessary for the observations here to be set down without our waiting for the budget. In the circumstances, we have chosen the Economic Survey presented in Parliament on February 23 as the peg on which to hang this short dissertation on how good the forthcoming budget should be in order to be a really good budget.

The Survey points out:

"While gross capital formation (at current prices) financed out of the budgetary resources of the central government increased by more than 20 per cent during 1962-63 and nearly 30 per cent in 1963-64, the corresponding proportions in later years were 10 per cent, 7 per cent and 4 per cent".

The Survey proceeds to underline the fact that budget estimates for 1967-68 show an absolute fall of about 8 per cent. A little later, it reports:

"The level of private investment was also subdued. The rise in the rupee cost of imported equipment, uncertainty regarding demand in future years and restricted availability of project aid contributed to hesitancy among potential investors in the private sector. The profitability of several industries may also have declined, reducing internal resources available for further investment and discouraging fresh investment decisions. Prior to the devaluation of the Indian rupee profit margins could, in several cases, be maintained at high levels, permitting adequate total profits to be earned even with considerable under-utilisation of capacity. Subsequent to devaluation and the adjustment of import tariff these margins were reduced....."

Allied to this theme are the following observations elsewhere in the Survey:

"Up-to-date statistics of private savings and investment are not available, but there are indications, other than those already mentioned above (such as a lower level of public subscriptions to government loans and a large drop in small savings collections), of a decline in both. The new issue market remained subdued and stock market prices declined after a temporary increase last year. The disbursements of long-term financial institutions had expanded rapidly during the five years ending 1966-67, but there is evidence of some slowing down during the current year. The resources provided by the central government to these institutions were reduced from Rs 65 crores for 1966-67 to Rs 40 crores (BE) in the current year."

In terms of this analysis, Mr Desai's primary duty is quite clear. Whatever else his budget proposals may or may not do, they should certainly attempt the task of reviving investment on both government and private accounts. This has to be done essentially by increasing the quantum of investible funds at the disposal of the public and private sectors. Where

government investment is concerned it would, no doubt, be tempting to add to resources by increasing taxes of one kind or another, but it is doubtful that there is much scope for these tactics in the present circumstances of the economy; the official Economic Survey repeatedly takes note of the fact that the slowing down of economic growth and the recession in several sectors of industry has affected adversely the receipts of the government. It follows that the only sensible manner in which the government could try to improve its contribution to creative capital formation in the public sector would be to impose an iron discipline on its expenditure and thereby endeavour to make investible resources available from the exchequer without any increase in taxation. This is an imperative of economic policy which Mr Desai just cannot afford to ignore.

As for the prospects of increased investment in the private sector it may at once be said that any addition to taxation, particularly of personal or corporate incomes, will very seriously damage both the willingness and the ability to invest. In fact what must engage the earnest consideration of the Finance Minister is to what extent and at what points he could give reliefs and concessions which might enable capital formation in the private sector to recover. The Economic Survey contends, rather interestingly, that the budgetary deficit which has developed in the current year, much against the government's intentions, has not been a cause of

inflation in the economy but is rather a creature of the recession in that it has been occasioned primarily by a decline in revenue receipts. This argument seems to owe more to ingenuity than logic for, on any reckoning, a budgetary deficit, given a situation of rising prices due to physical shortages—which was the case last year or the year before due to poor harvests—cannot be adjudged to have been neutral in terms of inflationary pressures.

In any case, the Economic Survey has conceded that increases in excise duties have been an important element in pushing up prices and to this extent at least the government's fiscal policy in the current year, as in the years before, has played its part in the upward movement of prices. This is one more reason why Mr Desai will have to think more than twice before adding to the tax burden, particularly in view of the fact that, as the Survey anticipates, there is every likelihood of prices rising in certain areas of manufacture in the coming months as a consequence of pent-up cost-push influences. For the same reason, a decision on the part of Mr Desai to resort to deficit financing to any extent will be critically studied and it would, of course, be less difficult to justify a limited measure of deficit financing as an alternative to an increase in taxation or an undue constriction of public investment in productive development than as a substitute for the economies in its expenditure which the government can or ought to attempt, but hasn't.

Anxiety in Assam

MRS INDIRA Gandhi's proposal to activate the National Integration Council is reported to have received no encouraging response from the non-Congress parties. The Council, originally set up in 1961, suspended its activities in 1952 when, in the wake of the Chinese aggression, the nation displayed a remarkable sense of solidarity. But in the last few years, forces of disintegration have once again begun to assert themselves in different parts of the country. It is therefore unfortunate that certain political parties prefer to stand aloof from a field of activity which is clearly in the interests of the entire nation. It is, of course, doubtful whether a 55-man body, as now proposed, will be able to check effectively the centrifugal tendencies. But even if the Council by its own efforts is not able to achieve much success in integrating the nation, its activities deserve the support of all patriotic citizens.

The Republic Day disturbances in Gauhati have once again demonstrated the dangerous drift towards disintegration. The most regrettable feature was that the attack was directed at the non-Assamese, especially Marwaris, Gujaratis, Sindhis, Bengalis and Punjabis, many of whom have been doing business in Assam and thereby contributing to its prosperity and progress for over 100 years. While the actual extent of the

damage caused is unknown, unofficial but responsible sources estimate that a loss of between Rs 8 and 10 crores has been incurred by the looting and destruction of property. About 600 business concerns of various linguistic groups are said to have been affected.

Whatever may be the magnitude of the loss, what should cause concern is the feeling of insecurity that the disturbances have created in this strategic state. The Lochit Sena, an organisation somewhat similar to the Shiva Sena of Maharashtra, is said to have played a conspicuous part in fostering ill-will towards the non-Assamese and in organising the disorders. But the Sena and its sponsors do not realise that unless Assam continues to attract capital and technical skill from other parts of the country, it can never realise its objective of providing adequate employment to the sons of the soil. The five-year plans have made no appreciable impact on the industrial development of Assam and, unless the state's economy is developed rapidly and vigorously, its people will not be able to maintain even their present relatively low standard of living.

The immediate need of Assam is to instil among the non-Assamese citizens a feeling of security and confidence and an awareness of the fact that the state

is prepared not merely to tolerate them but to give them effective protection and all facilities to pursue their normal avocations. The council of action of the All-Party Hill Leaders' Conference has strongly condemned the assault on non-Assamese and has urged the people to conduct themselves in a responsible and disciplined manner. Whatever may be the fate of Assam's reorganisation plan, it is clearly in the interest of all parties and sections to create such conditions as will inspire confidence among the linguistic minorities.

The Federation of Indian Chambers of Commerce and Industry appears to have acted with commendable speed in enquiring into the disturbances in Gauhati through its own agency. Its delegation to Gauhati is reported to have found that the non-Assamese businessmen have suffered severe damage in property but much more in morale. The delegation, it is understood, has made some specific suggestions to restore confidence and to give an impetus to business activity. The suggestions include the creation at non-official level of a fund of about Rs 500,000 for giving interest-free loans to the affected businessmen for a period of five years; liberalisation by the official financial institutions of their terms of lending against the security of land or house property; supply by manufacturers of Calcutta and other centres of materials on credit to the businessmen of Assam for rehabilitation; provision of legal assistance to the victims for getting compensation; and relief in

EASTERN ECONOMIST BUDGET NUMBER

'Eastern Economist' will carry a leading article on the central government's budget for 1968-69 in its issue of March 8 and will follow this up with a special Budget Number on March 15. This will present, as usual, a detailed analysis of budget proposals and include the principal budget documents for record and reference.

A special feature of the Budget Number this year will be a section on UNCTAD-II, reporting on the progress of the conference. Illustrated with charts, diagrams and statistical tables, the Budget Number, priced at Rs 5 per copy, will be available to our regular subscribers, both existing and new, without additional payment.

sales tax and income tax to those who have suffered. The delegation is also reported to have suggested that businessmen in Assam should appreciate the need for insuring their property and for organising themselves on proper lines in order to protect and promote their interests. It is felt that if a convention of businessmen from all over Assam is organised, under the auspices of the Federation, it may help not only to restore confidence but also to create a spirit of solidarity among them.

Irrespective of what the FICCI or other non-official agencies do, it is clearly the duty of the Government of Assam and the Government of India to scotch the Lochit Sena and to take immediate measures to establish firmly the rule of law. Assam's Minister of Revenue admitted, in a speech at Gauhati on February 9, that "some of our people are thinking in terms

of secession of the state from the Indian Union". He added that this "dangerous trend" should be firmly rooted out. Since the absence of adequate opportunities for employment appears to be a basic cause for the unrest, an obvious solution must be to speed up the state's economic progress which assumes urgency in view of its high rate of population growth of 3 per cent a year compared to the national average of 2.2 per cent. Mr Mohanlal Sukhadia, Rajasthan's Chief Minister, who visited Gauhati recently, did well in advising industrialists and business establishments to give more employment to local people. Assam's immense potentialities for economic growth are well known. Its resources in agriculture, forestry and minerals are considerable and their effective exploitation will create large scope for remunerative employment. At present about 80 per cent of Assam's industrial output is accounted for by oil and tea. Moreover, about 75 per cent of the industrial activity is located in the Upper Assam valley. The hill areas have been practically neglected in the matter of industrial development. There is thus a big need and scope for more industries of various types.

But, as referred to earlier, a basic requirement for industrial development is the need for capital and technical help from outside the state. This was clearly recognised in a techno-economic survey of Assam prepared by the National Council of Applied Economic Research (NCAER) about eight years ago. The survey said: "Assam has vast natural resources which can be developed to give the people of the state a rising

Eastern Economist 20 Years Ago

FEBRUARY 27, 1948

About this time, a year ago, political outlook in the country was clouded with uncertainty. The Constituent Assembly had started functioning but there was an element of unreality about it, inasmuch as it was not clear whether it would be able to produce a constitution for the entire country. But, frightful as has been the price, with the partition of the country that uncertainty has disappeared. The Constituent Assembly from the 3rd of June 1947 has been supreme over the larger part of India. The Draft Constitution of India is, therefore, an epoch-making document in our history. It sets the final seal over a people's struggle for complete and unsullied sovereignty over their country. There is still one last vestige reminding us of our old status, namely, our membership of the British Commonwealth. There can, however, be no doubt about the choice of our people when this question comes before them. We have to take upon ourselves the responsibilities and the risks that complete freedom entails. The draft constitution leaves this question open but since its last section repeals the Indian Independence Act, 1947, it is clear that with the adoption of the Constitution, the people of India will automatically constitute themselves into a Sovereign Democratic Republic. This position precludes neither the maintenance of friendliest relations with Great Britain nor the recognition of the Crown on the Irish model for external purposes only.

standard of living during the next decade and thereafter. But, for this purpose the state needs not only the help of the central government, but also of the private sector from other parts of India in the shape of capital and technical manpower for the development of industries. The flow of such help has to be facilitated, if not deliberately encouraged. Against this background and in the face of the compelling necessity to bring about rapid development, Assam's economic policy should be actively to favour the entry of non-Assamese capital and non-Assamese technical personnel to the extent necessary. Any other policy can only hamper development. The remedy for this situation lies largely with the people and the Government of Assam, and unless a proper climate to attract private capital and technical manpower is created, the prospects of any sizable industrial growth of Assam in the next decade are not very bright. The lack of development

No New Taxes in Maharashtra

MAHARASHTRA'S FINANCE Minister, Mr S. K. Wankhede, has managed the finances of the state well enough, since, despite the recession and the catastrophic Koyna earthquake, he hopes to close the current year (1967-68) with a deficit of Rs 5.04 crores only; he also hopes to finance a more ambitious plan for 1968-69 (of Rs 153.49 crores, as against one of Rs 122 crores for 1967-68), without new taxes for the next year. True, the overall budget for 1968-69 shows a deficit of Rs 14.93 crores even without providing for the effect of the Pay Commission's recommendations and debt service charges for the open market loan proposed to be raised and without taking into account a little below one crore of rupees of the 1968-69 annual plan outlay left uncovered. But Mr Wankhede feels confident the loan he is going to raise next year would take care of all these, apart from a rise in tax receipts at the prevailing rates due to the improved economic outlook. "There are signs of recovery in the overall economy of the state", he has assured the state legislature. Signs of recovery there are undoubtedly, but with the two important industries in the state, namely, engineering and textiles, continuing to be in a bad shape, and the tempo of private investment being still far from encouraging, is not the Maharashtra Finance Minister, despite all his familiarity with the poultry business, counting his chickens a little too soon? There is a chance that Mr Wankhede may get away with it eventually because he has not taken into account the "incidental" addition to revenue under excise consequent on the state's realistic and rational review of prohibition and, because in respect of both normal budget requirements and annual plan outlay, he has already given notice he may have to seek supplementary demands. Also, it must be said to the credit of this state that it has taken effective steps to economise administrative expenditure as well as to step up collection of tax arrears.

A notable feature of Mr Wankhede's budget speech

in industrial field is also bound to have its repercussions on development in agriculture, forests and minerals. If, therefore, nothing can be done to remedy the present situation, it would be well-nigh impossible to arrest at a later date the declining trend in the state economy that is now visible."

The observations of the NCAER in regard to the need for outside capital are true not merely of Assam but of almost every other state in India. Assam, of course, deserves special attention because of its geographical position, being "the most isolated of all the states of India". But at the same time, the Government of India should see to it that militant regionalism, wherever it raises its head, is put down promptly while pursuing such economic policies as will facilitate the rapid and balanced development of the country as a whole.

was the reference to what the state proposed to achieve by 1969-70, the Mahatma Gandhi Centenary Year. Without just restricting the event to celebrations and functions, it proposes to intensify the adult literacy programme and to organise an all-out effort to eradicate illiteracy by 1969-70. Stress is also being laid on village uplift work generally, such as building of approach roads and provision of potable water to villagers. Maharashtra should not find it difficult, between now and the end of 1969-70, to provide drinking water to all the villages which are not having it today, as, out of its 35,851 inhabited villages, 26,228 villages have ere now been given this amenity, leaving less than 10,000 villages only to be taken care of. Maharashtra's keenness to see that the historic occasion of the Centenary proves a landmark in the field of constructive and nation-building activities ought to prove infectious and spread to every state in our country.

By itself, the state's budget for 1968-69 is not very striking, except, perhaps, for the fair deal to teachers in recognised non-government secondary schools by way of the same pension, gratuity and other retirement benefits as are now applicable to teaching staff in government secondary schools and the provision of Rs 2 crores (out of this Rs 4 crores will be obtained as loan from the centre) for relief and rehabilitation to people in areas affected by the Koyna earthquake, besides the paltry provision of Rs 44 lakhs for sick mills taken over by the government.

The significance of this year's budget for Maharashtra lies, however, in the ambitious provision for the state's 1968-69 annual plan. Even in respect of the current (1967-68) annual plan, the state was able to increase the outlay on its development programme from Rs 111.55 crores, originally, to about Rs 122 crores. The main stress, of course, has been on agriculture, in particular foodgrain production. This is reflected in the expected increase of the acreage under hybrid and high-yielding varieties programme from 253,000 acres

to as much as 3.7 million acres, contour-bunding of as many as 1.6 million acres and creation of an irrigation potential of 471,000 acres, besides carrying out terracing in 24,000 acres and reclaiming 6,000 acres of *khar* land and electrification of a further 20,000 agricultural pumps.

The annual plan for 1968-69 also lays great stress on agriculture, the main aim being self-sufficiency in food which does not seem to be as near at hand as the Chief Minister, Mr Naik, once anticipated. The aim is to consolidate the position rendered uncertain by the three-year delay in starting the fourth five-year plan and to commence preliminary work on projects to be included in that plan. It is with this end in view obviously that the state Finance Minister has proposed for the next year's (1968-69) annual plan an outlay of Rs 153.49 crores, which is Rs 31 crores more than that for the current year. Out of this Rs 153.49 crores, the state's share of resources will be Rs 81.64 crores in addition to Rs 19.57 crores to be found by the public enterprises of the state—the Maharashtra State Electricity Board and the Maharashtra State Road Transport Corporation—while the balance of Rs 52.28 crores will be met from central assistance. Evidently Maharashtra is happy with the Planning Commission's principles for allocating central assistance to states for their plan expenditure. The central assistance will now be distributed to all the states in the proportion which the total central assistance fixed for the five-year period for that state bears to the aggregate of central assistance for all states for their five-year plans, and this works out favourably in the case of Maharashtra. Further, to some extent, this formula has retrospective effect. Thus, one-third of the difference between the central assistance allocable on this basis and the assistance actually allocated during the last two years is also to be made good by additional assistance. The gain to Maharashtra on this count is Rs 9.21 crores, according to Mr Wankhede, who also hopes the Planning Commission would make good the balance of the shortfall in assistance amounting to about Rs 20 crores next year.

In his 1968-69 budget, Maharashtra's Finance Minister has made a provision of Rs 133.06 crores including central assistance, and assumes an outlay of Rs 19.57 crores from the internal resources of the state's public enterprises, leaving Rs 86 lakhs yet to be found. When supplementary proposals are presented to the legislature later, the chances are that Mr Wankhede may have to provide not only for these Rs 86 lakhs but also for some shortfall in the share of at least one state public enterprise, i.e., the Maharashtra State Electricity Board. It may be noted here that the shortfall of over Rs 4.4 crores in the revenue receipts in 1966-67 was, on the state Finance Minister's own admission, mainly because the electricity board was not able to pay the lease rent of Rs 5.5 crores for Koyna.

A brief reference may now be made to the sectoral outlays in the 1968-69 annual plan. Next year's outlay on agriculture (Rs 33.35 crores) will be higher by 16.3

per cent, on irrigation (Rs 22.73 crores) by 42 per cent and on power projects (Rs 49.95 crores) by 70.4 per cent. Transport and communications and social services get allocations of Rs 12.09 crores and Rs 28.07 crores, respectively. It is noteworthy that the allocation for power projects at Rs 49.95 crores is the highest. This is perhaps necessary as the state will have to arrange to take its share of nuclear power (190 mW) from Tarapur, besides 22.5 mW from the Purna Hydro-Electric Project and 62.5 mW from Bhusawal Thermal Station, and, for this purpose, it has to gear its distribution and transmission system, besides arranging for the inter-state link connecting the nuclear power station, let alone the proposed all-India grid. The state has also a massive programme of rural electrification—3,000 more villages and 30,000 more agricultural pumps have to be electrified—but its fulfilment is said to depend on the availability of cash credits from commercial banks for financing the purchases of stores by the electricity board. This again renders uncertain the resources for the annual plan expected from the electricity board, although, with social control of banks becoming an accomplished fact soon, commercial banks may not be found averse to find the necessary finance. Maharashtra has already made rapid advances in its family planning campaign; this is to be further intensified to cover 300,000 sterilisation operations and 30,000 IUCD insertions.

Ambitious though the plan appears to be, it is based on fairly realistic assumptions and, given the same careful husbanding of its resources and the same degree of concern for stringent economy as heretofore, Maharashtra should be able to make the grade.



Fourth General Election in Kerala

M. V. PYLEE AND N. C. JOHN

THE RESULTS of the fourth general election, so far as Kerala was concerned, were fairly clear much ahead of the election day. The defeat of the Congress party in Kerala was generally expected. Top Congress leaders like Messrs S. K. Patil and Morarji Desai had given expression to this even openly. Those who were in close touch with the high ups in the Kerala Pradesh Congress Committee also knew that the Congress leaders in Kerala did not entertain great hopes about their party coming out as the single largest group in the assembly. But they were quite emphatic in asserting that the Congress performance this time would be far superior to that in the mid-term elections of 1965 in the state. Two leading, mass circulating, popular Malayalam daily newspapers of Kerala, 'The Mathrubhumi' and 'The Malayala Manorama', let loose such determined and consistent propaganda in favour of the Congress during the pre-election weeks that thousands of their regular readers were made to believe that the Congress was going to get at least 50 to 60 seats out of 133 if not a majority in the state assembly.

But the election results gave a shock to everyone, not excluding Mr E.M.S. Namboodiripad, the left communist leader (present Chief Minister of Kerala), who masterminded the United Front of seven parties which scored the stunning victory. For, the Congress was not only decisively defeated but even disgraced as a great national party. It secured a paltry nine seats, failing even to get into double figures. The pity is that the Congress has been reduced to the status of the fifth party in the assembly, a position which is lower than even that of the SSP and the Muslim League. All functionaries of the Kerala Pradesh Congress Committee, including its president, three secretaries and the treasurer, have been defeated. The only significant survivor in this landslide is Mr P. Govinda Menon (present Central Minister of Law), who has just managed to scrape through. Out of a total of 133 seats in the state assembly, the United Front captured 117. The Congress could secure only nine, just one-fourth of what it won in the mid-term elections of 1965. There is no other state in India where the Congress has fared so poorly and the defeat of the Congress been so disastrous that the party has been denied the status of even an opposition party. Why has this happened? What has made this possible? These are pertinent questions which deserve answer although it is difficult to give an easy, simple answer.

The Political History

An analysis of the results of the last general elections in the state is possible only if we clearly understand the political history of Kerala since independence which has, in fact, a good lesson for the whole country. Kerala has led the other states in India in many respects including literacy. Another significant first that goes to Kerala is that it was in the erstwhile Travancore state that the first general election in any state in India was held on the basis of adult suffrage. The year was 1948. In the 120-member legislative assembly, the state Congress, an affiliate of the Indian National Congress, secured 97 seats, Tamil Nad Congress 14 and Muslim League 8, apart from one independent. The Communist Party of India had fielded 17 candidates and the Kerala Socialist Party 8; but neither of these parties won even a single seat. And the one independent who got elected was among 32 who had contested. In that election the Muslim League, in fact, had supported the Congress.

The first constituent assembly in any state in India, formed on the basis of adult franchise, sat in Trivandrum on Saturday, March 20, 1948, with Mr A. J. John, who later became Chief Minister of Travancore-Cochin and Governor of Madras, as its president. And the first democratic ministry

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in Travancore took office on March 24, 1948, with Mr Pattom A. Thanu Pillai as Chief Minister and Mr T. M. Varughese and Mr C. Kesavan as cabinet ministers.

The events that followed the formation of the Pattom ministry were to prove a sad forerunner of the dismal polarisation and the chronic instability that have so much bedevilled the later political scene in Kerala. Hardly had the Pattom ministry established itself securely on the saddle, than serious divisions and dissensions began to manifest themselves within the Congress party. The dolorous culmination of that grim drama was the sudden resignation of the ministry before the year ended. The (Parur) T. K. Narayana Pillai ministry which followed was reorganised soon when Travancore-Cochin was formed. The reorganised ministry, however, did not last long. By 1951 due to internal squabbles again the ministry fell and a new ministry under the leadership of the Ezhava leader, Mr C. Kesavan, who was a minister in the first Pattom ministry, was formed which lasted only a few months.

Dissolution of Assembly

The Congress party failed to secure an absolute majority in the then Travancore-Cochin state legislative assembly in the general elections of 1951-52. It was only with the support of the Tamil Nad Congress Party of South Travancore that Mr A. J. John, a Syrian Christian leader, was able to form a ministry. Hardly had the ministry lasted for two years than it was defeated in the assembly which led to the dissolution of the assembly and mid-term elections of 1954.

The 1954 elections did not improve the political fortunes of the ruling Congress party. The two significant groups which proved their strength were the communists and the Praja Socialists. The Congress in one of the crudest manoeuvres gave responsive support to the 18-member strong PSP to form a ministry which was led by the erstwhile veteran Congress leader Mr Pattom Thanu Pillai who had by now become the leader of the Praja Socialist Party in the state. The Pattom ministry lasted hardly a year when it was voted out of office by the Congress quietly withdrawing its support to it. Mr Panampilly Govinda Menon, present Law Minister of the Government of India, formed the next ministry but within a year it had to resign on account of its own party members' betraying the ministry. President's rule was proclaimed as a consequence, and it lasted until the second general election of 1957.

In the meantime Travancore-Cochin, less the Tamil-speaking southern tip of the state south of Trivandrum, and the old Malabar district of Madras combined to form the present unilingual state of Kerala as a result of the reorganisation of states. The most dramatic aspect of the 1957 elections was the emergence of the Communist Party of India as the leading party in the state assembly and their forming a government with the support of a few independents. The communist ministry lasted only 28 months. The story of the dismissal of the communist ministry by the President in 1959 at the peak of a "liberation struggle" by the combined action of all other parties in the state is recent history. In the ensuing mid-term elections of 1960, the Congress in company with the PSP and the Muslim League scored an overwhelming victory over

the communists. The United Front led by the Congress won as many as 94 seats as against 29 by the communists and their supporters in a total of 126 seats.

Again Mr Thanu Pillai formed a ministry, this time a coalition, of which the major partner was the Congress. The Muslim League which was with the Congress at the time of the election was, unfortunately, not allowed to share power. In 1962 Mr Pillai was made a governor and left Kerala. Soon, the coalition broke up and the Congress formed its own ministry under Mr. R. Sankar, the Ezhava leader. Hardly had the ministry functioned for two years than internal rivalry led to its downfall in September 1964 as a result of 15 members of the party voting against its own leadership when a no-confidence motion was moved in the assembly by the communist opposition party. President's rule was again proclaimed in Kerala and yet another mid-term election was held in the state in 1965. In that election, besides the old parties, a new party had come into being, the Kerala Congress, led by the 15 rebel Congressmen who had earlier voted against the party. The 1965 elections gave a most humiliating experience to the Congress. It secured only 36 seats out of a total of 133, whereas the rebels who were only 15 out of 63 had secured as many as 24 seats. The Marxist communists were the leading party in 1965 but had only 40 seats. On the ground that no single party nor a coalition supported by a majority in the assembly was forthcoming to form a government in the state, the assembly was dissolved even before it formally assembled, and President's rule was continued in Kerala with a fresh proclamation of emergency in the state paving the way for the last general elections. If the 1967 election was the fourth at the all India level, in Kerala it was the eighth! The tables given in the following pages will show the results of the elections so far in Kerala.

The present strength of the Kerala Legislative Assembly is 134, including one Anglo-Indian nominee. Elections were held for the remaining 133 seats as well as for 19 parliamentary seats on February 20, 1967.

Peculiar Feature

A peculiar feature of the last elections, never before observed in Kerala, was the United Front forged by an odd group of seven political parties belonging to both the left and the right, viz., CPI (Marxists), CPI, SSP, Muslim League, RSP, Workers' and Peasants Party (Karshaka Thozhilali Party-KTP), and KSP. And the obvious aim of the United Front was to present a combined opposition to the Indian National Congress. The latter had to face also another formidable adversary in the Kerala Congress, formed of the separated brethren from the ranks of the Indian National Congress more than a couple of years ago and who had opposed the parent party and substantially weakened its position in the infructuous 1965 state election as well. The antagonism between the Indian National Congress and the Kerala Congress seemed so immense that in the 1967 elections there were allegations of the rebel Congress openly supporting the United Front candidates against the Indian National Congress wherever possible, and the Indian National Congress, in turn, doing the same with the rebels.

In sum, the main effective fight was one between the Indian National Congress on one side and the rest on the other. Such a formidable magnitude of opposition had never before been faced by the Congress in Kerala; and it would not be incorrect to add that the formidable array of the combined opposition the Congress had to contend with in the 1967 election in Kerala, was without a parallel in any other state either in 1967 itself or on any occasion previously. The usual feature of Indian elections hitherto, when the Congress with a minority of votes polled in its favour ran off as winner owing to the division in the opposition ranks, was this time reversed in Kerala. And little wonder, though the Indian

National Congress fielded 133 candidates to contest all of the seats, it was not able to win anything more than 9 seats, while the United Front and independents supported by them opposed the Indian National Congress for all the seats and came out victorious in no less than 117 of them. (Of these 117, four are independents). The unprecedented victory achieved by the United Front has surprised even the shrewdest political pundits; however, the most surprised of all, consequent upon the election results, seem to be the winners themselves. For, on February 22, 1967, when the canvas of the assembly election results became fully unfolded, the winners' position bore no small resemblance to that of Lord Byron who, as the saying goes, woke up one fine morning to find himself famous.

Apart from the seven United Front parties, the Congress party and the Kerala Congress, other parties which contested the election included Bharatiya Jana Sangh, PSP, Swatantra Party, Republican Party and All-Kerala Muslim League, a

TABLE I
RESULT OF ELECTION TO THE TRAVANCORE
LEGISLATIVE ASSEMBLY, 1948

Party	Seats contested	Seats won	Popular votes obtained	
			Number	Percentage
Congress	112	97	*	*
Muslim League	*	8	*	*
Travancore Tamil Nad Congress (TTNC)	*	14	*	*
Communist	17	Nil	*	*
Kerala Socialist Party (KSP)	8	Nil	*	*
Independents	32	1	*	*
TOTAL	—	120	*	*

* Not available.

TABLE II
RESULT OF ELECTION TO THE TRAVANCORE-COCHIN*
LEGISLATIVE ASSEMBLY, 1951-52
(FIRST GENERAL ELECTION)

Party	Seats contested	Seats won	Popular votes Obtained	
			Number	Percentage
Congress	99	44	12,04,364	35.4
PSP	71	11	4,85,194	14.3
Communist	...	25	@	@
RSP	...	...	1,18,333	4.4
Other parties	267	28	4,38,747	12.0
Independents	...	...	11,51,555	33.9
TOTAL	437	108	33,98,193	100.0

* The United State of Travancore-Cochin came into being on June 8, 1949, as a result of the integration of the erstwhile princely states of Travancore and Cochin.

@ Included in 'Other Parties'.

newly formed Muslim splinter group. However, the fact is significant that none of them won any seat and all the candidates of all these parties lost their deposits. A few independents also contested in the election, but their number was relatively small this time compared with the previous election and the impact they made on the polling was still less. The lowest number of votes polled by any candidate in any general election in Kerala seems to be that secured in the last election by the Jana Sangh candidate from the Chengannur Assembly Constituency, the votes polled being 63.

The totally unexpected level to which the defeat of the Congress party has apparently descended and the equally unexpected heights that the victory of the United Front has gained, are bound to provide ample food for any number of debates and controversies by the protagonists of either side. But an impartial observer of the election results cannot fail to note some significant facts about the situation.

Unsubstantiated Claim

Some extremists of the leftist view have argued that the present elections have highlighted a perceptible swing to the left in Kerala. A close scrutiny of the results will reveal that the claim is not so strong. Let us first take the case of the United Front victory. The seven United Front parties as such have secured 113 seats out of the total of 133, i.e., 85 per cent but the total popular votes polled by them came to only about 52 per cent. And it is not at all difficult to see that the most creditable achievement among the seven parties has been that of the Muslim League, the so-called rightist of all rightist parties conceivable. The Muslim League had fielded 15 candidates of whom 14 were elected, the other one losing by the narrowest margin in the whole of the elections—a mere 95 votes—to an independent supported by the Karnataka Samiti from the Kasargode Assembly Constituency on the borders of Mysore with a sizable Kannada speaking electorate. Incidentally, the Karnataka Samiti stands for the merger of Kasargode Taluk with Mysore state.

Let us have a look at the performance of the two wings of CPI, which formed the largest chunk in the United Front. The left communists (Marxists) and the CPI (right) fielded 81 assembly candidates in all, of whom 71 were elected. They together have polled about 32 per cent of the total votes polled. These figures seem impressive indeed on the surface; but a close look at them in conjunction with the performance of CPI (right) in the previous elections, cannot fail to reveal the fact that the position of CPI (left and right together) has not improved from what it was in 1957, nay it has worsened significantly. In the general election to the assembly held in 1957, the CPI polled 35.3 per cent of the total votes polled; and they even secured all but the majority with 60 seats in the then 126-member assembly. The percentage of votes polled by them in 1967, hence, was about 3.3 less than what they polled ten years ago.

Another fact about the performance of the two communist parties in 1967 deserves note. A close look at the election results will reveal that among the candidates that the United Front collectively fielded in the elections, the percentage of defeat was the maximum in relation to those belonging to the two communist parties. As has already been stated, 113 candidates were elected out of the total of 127 that the United Front had fielded; the percentage of success works out to be $113 \times 100/127=89$. And even if we take into account the six independents also, who had contested with the United Front support and of whom four were elected, the corresponding percentage works out to be $117 \times 100/133=88$. However, in the case of the two CPI groups combined, the percentage is only $71 \times 100/81=87.65$. Thus it is obvious that the percentage of success achieved by the two communist parties in Kerala in the 1967 election is in any way less than the collective suc-

cess achieved by the United Front. The communists represent the most extreme leftist views among all parties comprising the United Front and the above position of the communists is yet another proof that the 1967 elections in Kerala did not signify any leftist swing in regard to the attitude of the electorate.

Let us turn the telescope of our analysis to the most popular contour that has been highlighted by the 1967 election results in Kerala—the apparent routing of the Indian National Congress from the lush political pasture of Kerala into the dreary wilderness of almost complete obscurity. In fact, that is the real situation if we take into account only the total number of seats captured by the Congress—a mere 9 out of 133 candidates it had fielded. But that situation does not tell the full story. A careful analysis of the votes polled by the Congress party will reveal that its hold on the Kerala electorate has not in any way weakened over the years. On the contrary, there has even been a strengthening in some regions however unstable that might be. Fifteen years ago, in the 1951-52 general elections, the Congress party polled 35.4 per cent of the total valid votes; in 1967, if the corresponding percentage has not gone up, it has at least not gone down; surprisingly, 35.4 was the percentage figure for 1967 as well. And the 1967 situation needs to be understood in the background of two distinct disadvantages which were hanging on to the neck of the party like a cumbersome grinding stone, compared with the position in the year 1951-52. They were: (1) the substantial weakening of its strength in the Travancore-Cochin area as a result of the formation of the Kerala Congress composed of rebels, and (2) the great advantage which the opposition gained as a result of the support of the Muslim League whose influence is decisive all over the Malabar area and not negligible elsewhere in the state.

What lay behind the ignominious defeat of the Congress party in the 1967 election in Kerala? There can be as many answers to this question as there are persons attempting to

TABLE III
RESULT OF THE MID-TERM ELECTION TO THE TRAVANCORE-COCHIN LEGISLATIVE ASSEMBLY, 1954

Party	Seats contested	Seats won	Popular votes Obtained	
			Number	Percentage
Congress	115	45	17,58,283	46.2
Communist	35	23	6,29,791	16.1
PSP	38	19	5,89,140	15.2
TTNC*	16	12	2,43,568	6.5
RSP	18	9	2,09,831	5.6
KSP**	13	3	93,601	2.4
Jana Sangh	1	Nil	403	@@
RCPI@	2	Nil	5,772	@@
Independents	17	6	2,77,923	6.8
TOTAL	255	117	38,08,309	100.0

* Travancore Tamil Nad Congress (vide Table No. I).

** Kerala Socialist Party (vide Table No. I).

@ Revolutionary Communist Party of India.

@@ Less than one per cent.

answer it. However, as one keen observer of the Kerala scene remarked: "For the humiliating debacle of the Congress, no one is as greatly responsible as the party itself. It is one of those rare happenings when a political party hoodwinks itself by building false hopes of fantastic dimensions and then comes to grief at the time of reckoning". The Congress found it infradig to enter into fruitful alliance with like-minded parties; and its false pride was too high to attempt any rapprochement with the splinter group. It wanted to go it alone; and the consequence was grievous. The central leaders such as Mr

TABLE IV
RESULT OF ELECTION TO THE KERALA* LEGISLATIVE ASSEMBLY, 1957
(Second General Election)

Party	Seats contested	Seats won	Popular votes Obtained	
			Number	Percentage
Congress	124	43	22,09,251	37.8
Communist	100	60	20,59,547	35.3
PSP	62	9	6,28,261	10.8
RSP	27	Nil	1,88,553	3.2
Muslim League	17	8	7,51,965	12.9
Independents	59	6	...	...
TOTAL	389	126	58,37,577	100.00

* The State of Kerala came into existence on November 1, 1956, as a result of the reorganisation of the states. The erstwhile Travancore-Cochin (minus the Kanyakumari district) and the Malabar district of Madras were included in the new state.

Kamaraj, the then Congress president, behaved in the most unrealistic and unimaginative manner in this regard. The statements they used to make on the Kerala situation from time to time created more amusement than sympathy among those who knew well the Kerala situation. For, they betrayed their utter ignorance of the real situation in this state. In fact, most of them including the Congress president became mere pawns in the hands of a few clever, calculating, local Congress bosses.

Formidable Challenge

In the 1965 assembly election, the rebel Congress had contested 54 seats of which it won 24, polling 12.6 per cent of the total valid votes. In 1967, it fielded 61 candidates and only five of them came out successful, and the percentage of votes it polled was slashed to almost half the previous figure, i.e., 7.6. The Kerala Congress had not entertained high hopes this time as they had lost the support of the Muslim League as well as that of some Church dignitaries and Mr Mannath Padmanabhan, the Nayar leader. In 1965 they had the unqualified support of all these parties. They were however determined to see the defeat of the Congress which refused to seek or even to touch their outstretched hand of co-operation. Of course, the combined opposition of the seven united parties was too formidable a challenge for the Congress party to face. However, the fact remains that had there been an understanding between the two Congress groups, the picture would have been substantially different. In that situation, even crude arithmetic would show that they together could have easily won between 55 and 65 seats.

The split in the Congress group has cost them very dearly

in the contest for the Lok Sabha seats also. In four of the 19 Lok Sabha constituencies, viz, Moovattupuzha, Kottayam, Mavelikara and Peermade, the United Front has won in 1967, whereas in the first three the Congress had come out successful in the 1962 elections, while the last is a newly formed constituency. In the latest election, the Congress has just managed to win one Lok Sabha seat out of the total of 19; and there too the margin of votes polled by the successful Congress candidate cannot give much room for consolation to the party. The successful Congress candidate, Mr P. Govinda Menon, won the Mukundapuram seat by the skin of his teeth.

Poor Showing

The two rightist parties, Swatantra and Bharatiya Jana Sangh, did not count much in Kerala in the 1967 election; nor had they had any appreciable influence on the electorate previously. The Swatantra Party contested only six seats for the assembly in 1967 as against 13 in 1965; however, though it failed to secure any seat, the votes polled per candidate in 1967 showed a little improvement compared with the 1965 position.

An analysis of the Kerala political scene in the light of the different elections that have taken place in the state since 1952 will lead us to a number of significant conclusions. Among these, the most obvious is the more or less equal strength of the Congress and the communists. It is important to note that both the Congress and communist parties got split only a few years ago. But if one can imagine for a moment a united Congress and a united communist party in Kerala, then, it would be clear that each would pull almost the same weight with the electorate. Together they would account for a total of some 65 per cent of the state's voters. Such a situation does not exist in any other state in India, even in West Bengal where the communist position is very strong.

Of course, it is difficult to say whether the existing split in each party that has weakened both of them will continue in

TABLE V
RESULT OF THE MID-TERM ELECTION TO THE KERALA LEGISLATIVE ASSEMBLY 1960

Party	Seats contested	Seats won	Popular votes Obtained	
			Number	Percentage
Congress	80	63	27,91,294	34.4
PSP	33	20	11,46,029	14.2
Muslim League	12	11	3,99,925	5.0
Communist	102	26	29,75,259	36.7
Communist Independents	23	3	5,74,877	7.2
RSP	18	1	1,06,137	1.2
KSP	14	Nil	5,938	...
Socialist Party	4	Nil	21,297	0.4
Jana Sangh	3	Nil	5,277	...
Independents	19	2	77,725	0.9
TOTAL	298	126	81,03,758	100.0

Note: While the percentage of votes polled in every election in Kerala has stood the highest in any state in the country, the 1960 mid-term election figures hold a record not only for India but, perhaps, for any democracy in the world where voting in a general election is voluntary. The polling in 1960 in Kerala was as high as 90.10 per cent.

the same form for long or they will find ways and means of re-establishing unity. In the interest of sheer survival, the latter course seems to be the logical one and it may very well take place in due course. If there is an election in which every party fights the battle alone, the Congress and the com-

TABLE VI
RESULT OF THE MID-TERM ELECTION TO THE KERALA LEGISLATIVE ASSEMBLY, 1965

Party	Seats contested	Seats won	Popular votes Obtained	
			Number	Percentage
Congress	133	36	21,25,792	33.58
Communist (L)	73	40	12,57,869	19.88
Communist (R)	78	3	5,13,159	8.11
SSP	29	13	5,14,689	8.13
Muslim League	16	6	2,42,529	3.83
RSP	12	Nil	4,90,335	7.75
Karshaka Thozhilali Party (KTP)*	4	1	46,423	0.73
Kerala Congress	54	23	7,96,291	12.58
Jana Sangh	16	Nil	33,381	0.53
PSP	4	Nil	10,300	0.16
Swatantra Party	13	Nil	26,858	0.42
Republican Party	2	Nil	3,381	0.05
Independents	124	11	2,32,765	3.68
TOTAL	558	133	62,93,772	100.00

* Workers' & Peasants' Party.

munists will each secure some 45 seats out of the total of 133 seats in the assembly. Thus it is clear that neither can, on its own strength, form a ministry and rule the state. Hence if neither of them aims to capture power, it is absolutely necessary to forge an alliance with one or more of the other smaller parties. Any talk, therefore, of fighting the election alone and winning a majority of seats to form a stable one-party government in Kerala is sheer nonsense. It will not work. The ill-informed and unthinking Congress leadership in the centre should take note of this.

Another fairly dependable conclusion is that among those who consistently support the communists, the most numerous caste or communal faction, is that of the Ezhavas, the largest single community in Kerala. No doubt, the communists have sizable support from other communities as well; but comparatively speaking that support is only marginal. In contrast, the bulk of the Congress strength springs from the two economically most powerful communities of the state, the Christians and the Nayers. This position is likely to continue for quite some time.

Next in importance to the Congress and the communists is the Muslim League which has a well-knit, cohesive party machinery. From the point of view of its political strength the Muslim League may not have the support of more than 15 per cent of the electorate. Yet in view of the equal strength of the Congress and the communists, the League can tilt the balance

decisively depending on the party to which it lends its support. This political reality of the Kerala scene is unmistakable to any interested observer. But the all-India leadership of the Congress is yet not prepared to accept this plain simple fact; and the local Congress which has never had the reputation of presenting a strong case on anything to the central leadership, has always failed to persuade the central leaders to adopt a realistic policy for Kerala. The only occasion when the central leadership accepted this reality and approved of the local Congress joining hands with the League was in 1960 and the results of that election proved the wisdom of that alliance.

Vital Force

The Muslim League in Kerala, in the present context of political polarisation, can never be ignored. In fact, it can dictate terms to other parties who seek its co-operation and support. Further, to brand the League as reactionary and communal and denounce it as a political untouchable is not a wise policy in the light of the present stage of political development in the country as a whole. Every student of Indian politics knows very well that communalism has always been its dominant feature. Even the communists, the most non-communal of all, are influenced by communalism and they never found any ideological conflict in aligning with the Muslim League either to fight an election or to run a government.

Malabar (north Kerala) is the real stronghold of the communists and a combination of the Muslim League and the communists in that area is unbreakable by any other combination of political parties. Similarly, central Kerala except the coastal belt is the stronghold of the Congress and it can successfully face any other party or even a combination of parties

TABLE VII
RESULT OF ELECTION TO THE KERALA LEGISLATIVE ASSEMBLY, 1967
(Fourth General Election)

Party	Seats contested	Seats won	Popular votes Obtained	
			Number	Percentage
1. Congress	133	9	22,25,475	35.42
2. Communist (L)	59	52	14,76,456	23.51
3. Communist (R)	22	19	5,37,824	8.57
4. SSP	21	19	5,27,662	8.41
5. Muslim League	15	14	4,24,195	6.76
6. RSP	6	6	1,70,498	2.72
7. KTP	3	2	68,954	1.10
8. KSP	1	1	32,974	0.52
9. Kerala Congress	61	5	4,75,112	7.57
10. Jana Sangh	24	Nil	55,584	0.89
11. PSP	7	Nil	13,991	0.23
12. Swatantra Party	6	Nil	13,105	0.22
13. Republican Party	3	Nil	2,176	0.04
14. Independents	48	6	2,53,556	4.04
TOTAL	409	133	62,77,562	100.00

Note: The seven parties included under S. No. 2—8 forme a United Front.

provided it has the support of the rebel Congress. But so long as the Congress is split in this area, neither of the Congress factions will be able to score victories except in isolated cases.

The PSP as a party is practically an extinct species in the political world of Kerala. The SSP, however, lingers on in a few pockets mostly in the Malabar area and a few in the Trivandrum district of the state. But taken as a whole the party's strength cannot be rated as even a modest five per cent of the total electorate. The party has little scope for strengthening its position in the state. It is only a matter of time when it will face the same fate as its elder sister—the PSP—in the state.

The two other all-India parties, Swatantra and Jana Sangh, which have significantly enhanced their popularity in recent years in many parts of India as shown in the last election, have made no mark so far in Kerala. There are no indications of any appreciable increase of strength of these parties in the near future either. Judging from the pattern of voting in the 1965 and 1967 elections, one is inclined to forecast that neither the Swatantra Party nor the Jana Sangh will pull any weight in Kerala on their own strength. They may, however, influence the fate of a few constituencies by lending support to one or other of the dominant candidates in the election arena.

Lost Identity

Of the three local minor parties, the RSP, the KTP and the KSP, the last one seems to have altogether lost its identity as a political group in spite of the fact that its leader, Mr Mathai Manjooran, is the Labour Minister of the present United Front government. The RSP has still some measure of strength in a few urban centres like Quilon and Trivandrum. But even in these centres they cannot win a single seat on their

own strength. Similarly, KTP's influence is confined to a few pockets of forest settlements in the high ranges of central and north Kerala. The fact is that none of these parties has any future in Kerala.

A popular belief that enormously influenced political campaigning in Kerala all these years has been the tremendous authority of the religious and communal leadership to influence the electorate. To a great extent this was also the reality. The Congress has been systematically exploiting this situation, election after election, by getting the support of communal and religious leaders while other parties have been educating the electorate to independently exercise their political right. For the first time the advantage was lost to the Congress in 1965 when the rebel Kerala Congress was firmly backed by most of the church dignitaries and the Nayar leader, Mr Mannath Padmanabhan. In the 1967 election, however, the Congress had managed to regain substantially the support of the same sources. But the determined campaign of the rebel Congress as well as other parties brought about a substantial change in the attitude of the electorate. Communal and religious leadership from now onwards will not be able to exert the same influence which they used to do in the past. This is a great and most welcome development in Kerala's political life.

Kerala has often been called the problem state of India. This is primarily because the state has been posing political and economic problems which are peculiar in their nature and which have not been faced by the rest of the country. But there is gradually emerging a striking relationship between the problems of Kerala and those of other states and indeed of the country as a whole. Kerala's problems of today are India's problems tomorrow. And what Kerala has seen and gone through in the political and economic and even other spheres of life, is going to happen in varying forms in other parts of the country.

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Crisis in the Electrical Cable Industry

A. K. BASAK

RECESSION is not peculiar to India or any developing country. Most advanced countries fall into and weather these buffetings. The present recession, although country-wide, has particularly hit certain sectors of the engineering industry and the cable industry is one of them. There is hope that the country will soon tide over the present difficulties but the question remains whether the power cable industry with its present structure is in a position to regain its health without the help of some very special measures.

Industrial licences in the cable industry were issued on the basis of planned production targets on an estimated demand. The actual demand, however, has fallen far short of the estimates resulting in large excess capacity. Power generation and distribution is largely a government function. Seventy-five to eighty-five per cent of the output of the cable industry is taken up by the government directly or indirectly and therefore the demand is related to investment made by the government and other related sources. Any slowing down of planned programme has its repercussions on the industry which is already handicapped by inherent excess capacity.

Material-Intensive Industry

The cable industry is material intensive and the bulk of the material is imported. As a result, large funds are blocked in the procurement of raw materials without the corresponding demand for cables. Recession has aggravated the situation created by excess capacity. The survival of the industry is at stake unless immediate and long-term measures are undertaken.

In planning the demand targets for the power cable industry, it was assumed that with every one million kW of new power generation the demand for PILC (Paper Insulated Lead Covered) cables would be 10,000 Kms. By the end of 1965-66 it was found that the demand during the third Plan period did not exceed 5,000 kms for one million kW of new power generation. Against an estimated demand of 15,700 kms of PILC cables in 1965-66, the actual consumption was only about 6,800 kms. The estimated demand by the end of 1970-71 was placed at 25,000 kms based on the same factors of growth.

The following table gives the production and imports of PILC cables during 1961-67.

PRODUCTION, IMPORTS AND CONSUMPTION OF P.I.L.C. CABLES DURING 1961-67

Year	Production (Kms)	Imports (Kms)	Undeclared Imports (estimated) (Kms)	Total consumption (Kms)	New electric power generation capacity (MW)
1961-62	1,211	1,296	500	3,007	690
1962-63	2,060	1,403	500	3,693	453
1963-64	2,461	2,420	500	5,381	763
1964-65	2,639	1,172	500	4,311	394
1965-66	4,468	1,912	500	6,880	1,566
1966-67	4,388	1,430	500	6,318	1,761
Annual average six years	2,871	1,606	500	4,977	938

The cable industry is import intensive and the government in an effort to obtain import substitution issued a directive to all power cablemakers to switch over to plastics in the manufacture of power cables up to 1.1 kV. The directive had

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laudable intentions in conserving foreign exchange, but it resulted in more idle capacity. The 1.1 kV PILC cables represented roughly 60 per cent in kilometres and 40/45 per cent in value of the total demand for power cables.

Recently, a further directive has been issued to the industry to use thermo plastics in underground cables up to the rating of 11 kV by June, 1969. This represents in kilometres another 30 per cent of the demand.

It would stand to reason that even if the recession had not set in, the paper power cable industry would operate at 20 per cent of the installed capacity by July 1969, provided the planned estimates for 22 kV and 33 kV PILC cables measured up to the actual demand. If the present demand is any indication, the actual consumption will not exceed 10 per cent of installed capacity.

In the early stages of development of the industry, it was the government's policy to encourage only PILC (paper insulated lead covered) manufacturing units. The plants were imported at very high cost since only 10 per cent of the equipment was indigenous. Most of the plants began operating at the end of the third five-year Plan and costly plant and machinery involving massive foreign exchange will be rendered completely idle after uneconomic production for three or four years. The plants have not been able to absorb any appreciable amount by way of depreciation.

Scarcity of Resources

With the general scarcity of resources the state electricity boards are without funds, and power development projects are virtually at a standstill; the expansion schemes of the Railways have been halted, and new industrial projects and expansion programmes have been shelved. The planning process has slowed down into annual exercises, so that the original fourth Plan targets have inevitably receded.

Since about 80 per cent of the output is directly or indirectly taken up by the government, the demand for cables has fallen alarmingly. In order to procure whatever little business was available the cablemakers indulged in cut-throat competition in a limited market. At the same time, large funds were blocked in taking advantage of licences issued for raw materials under the IDA loans.

An impression of the imbalance between installed capacity and actual production after recession can be had from the following figures of the power cable industry. In 1966, 4,400 kms valued at approximately Rs 15 crores was manufactured. In 1967, however, production fell to 2,200 kms. Even this figure could not have been achieved had there not been a backlog of orders due to a shortage of raw materials, particularly lead in the prior period. In actual fact, in the last six months of 1967, the value of total orders received by all the manufacturers was Rs 1.5 crores, against an installed capacity of approximately Rs 30 crores, indicating plant utilisation of 10 per cent. In general, the PVC cable market is almost as bad and the production is barely 30 per cent of the installed capacity.

Recession has brought into clearer perspective the stark realities of the situation in the industry. It is not only a question of immediate relief but finding long-run ways and

means of utilising idle capacity. A study should be undertaken to evaluate and reconsider the basic problems in the background of future power generation and distribution programmes, and immediate relief provided to overcome the hardships of the industry.

With the sudden dwindling of home demand, seven power cablemakers under the leadership of the Indian Cable Co. Ltd decided to form an export consortium and investigate the possibility of markets abroad to keep the factories running and fight recession. The government came forward to support the initiative of the industry and the consortium met with immediate success in Kuwait. Two orders of the value of Rs 3.3 crores have been won.

Our cable industry is, however, at a great disadvantage as compared with foreign manufacturers on account of the high capital and operational cost of plants. There is also the high cost of raw material, indirect taxation, freight and insurance charges and time consuming procedures of getting drawback.

Without a substantial and remunerative home market no industry can survive only on export orders. Even in a highly export-oriented country such as Japan, the export of cables accounts only for 16 per cent of the total production of the cable industry. It is therefore necessary to consider increasing the cash subsidy from 10 per cent to 25 per cent for the duration of the present slump in the home demand for cables. This measure should not be viewed purely in terms of the current criteria for export incentives, but as a measure of immediate relief from current recession.

A Relief Measure

It is the declared policy of the government to reach a revised target of 20 million kW, against 24 million kW originally envisaged, by 1970-71. This would mean an average of 2 million kW of new power generation per annum, a much faster rate than during the third five-year Plan, and consequently a very large demand for PILC cables should be created after a year. Therefore, as a relief measure for the cable industry which is presently facing almost a total lack of demand, it is essential that substantial orders for cables are now planned on the industry in order to enable it to tide over the present critical situation. This is a key industry and essential to the industrial and economic growth of the country. Therefore the need for governmental assistance by way of planned flow of orders to maintain a minimum plant utilisation of at least 50 per cent at the present juncture is imperative to save the industry.

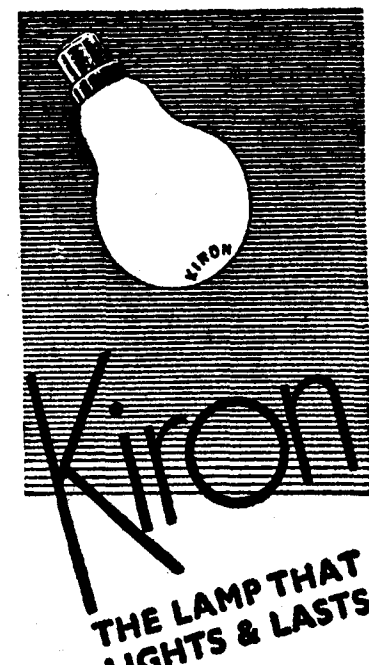
The government should direct electricity boards to place advance orders for their requirements to meet the increased needs in view of electricity expansion. A similar step has been taken in the case of the manufacturers of railway equipment where the Railway Board has come forward to help them. Another essential step which the government has to take to help the country and the industry is totally to stop import of different types of cables, even those that are coming forward under turn-key projects. Different types of cables and electric wires of an average value of Rs 9 crores per annum have been imported during the last five years. Even during 1967, the total imports were Rs 4.6 crores; over 50 per cent of this figure is accounted for by PILC and PVC power cables. In addition to these recorded imports, there is a substantial volume of unrecorded imports of cables which come as part of equipment of turn-key projects. There can be no justification for allowing imports when the indigenous industry is starving for orders.

The bulk of the equipment and plants for the manufacture of PILC cables was purchased barely five years ago with the help of deferred payments and other capital loans from financial institutions. Most of the plant has not been written off to

any appreciable extent and the industry has not been able to establish adequate reserves. There is already a large idle capacity due to the switch-over to plastics for low voltage cables and the prospect of closing down of costly imported plant and equipment through a further switch to plastics is alarming. The switch-over from PILC to plastic cables up to 11 kV should be spread over a longer period, at least another three years, to permit the industry to write off plant cost.

The Industrial Policy Resolution of 1956 reserved the manufacture of telephone cables for the public sector. The home demand for these cables is constantly on the increase and according to estimates is likely to be four-fold by the end of the fourth Plan. The Hindustan Cables Ltd at Rupnarainpur is unable to meet the demand. With the fall in demand of PILC cables and idle capacity at hand, the power cable industry has repeatedly approached the government to permit it to manufacture telephone cables. It has been pointed out that only balancing equipment valued at about Rs 1 crore will be required by the industry. The government, however, seem determined to set up another unit at Hyderabad at a cost of Rs 22 crores for the purpose, disallowing the industry to produce the output at much lower cost to the nation.

Recently a study was initiated by the Planning Commission to identify fields where, in spite of large idle capacity in the private sector, new projects were being set up in the public sector. The Hyderabad project of the Hindustan Cables Ltd is a case in point. Rigid adherence to the Industrial Policy Resolution would cost the nation Rs 22 crores in times of economic stress and lay bare the cable industry to yet greater hardship. A closer study of the subject would convince the government of the wisdom of preventing a duplication of facilities in times when capacity already installed is left unutilised.



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FROM THE CAPITAL'S CUPBOARD

The Economics of Cochin Shipyard

CONSEQUENT UPON the decision of the union government to build at the Cochin Shipyard bulk carriers/tankers of 66,000 DWT and a dry dock to repair vessels up to 85,000 DWT, a revised project report for this venture is proposed to be got ready from the Mitsubishi Heavy Industries Ltd (MHI), of Japan, by the middle of the current calendar year. Messrs MHI in their original report had provided for the creation of facilities at this yard for building bulk carriers/tankers of two sizes—33,000 DWT and 53,000 DWT—and for repairing vessels up to 53,000 DWT. The decision to go in for the establishment of facilities for building and repairing larger ships has been taken in the light of the present world trends, the changing pattern of our sea-borne trade and the future requirements of our shipping industry.

Under the revised scheme, the first keel is proposed to be laid in 1971-72. The first ship, it is hoped, will be delivered in 1974-75. The repair dock, with a capacity of about one million GRT per annum, is planned to be commissioned in 1973-74. The revised project, it is understood, may cost at current prices nearly Rs 36 crores, with a foreign exchange component of about five crores of rupees. The cost of the original project was estimated at Rs 40.8 crores (pre-devaluation) or Rs 46.5 crores (post-devaluation) with a foreign exchange component of Rs 9.9 crores (pre-devaluation) or Rs 15.6 crores (post-devaluation). The reduction in cost is accounted for by the recent assessment that availability of equipment from indigenous sources may be higher than estimated earlier. The entire capital outlay will form the equity capital of the shipyard.

The first five ships to be built at Cochin are expected to involve longer periods of delivery; their cost, therefore, will be somewhat higher than the international sale price. From the sixth ship onwards the cost incurred is expected to go down progressively; it will be lower than the international sale price. The difference between the sale and cost prices is hoped to be stabilised from the twelfth or thirteenth ship onwards. The revenue deficit, including interest on capital, in the initial years is expected to aggregate nearly eight crores of rupees. The surplus in the subsequent years would be adjusted against this deficit with the result that from 1980-81 onwards, the shipyard will yield an annual return of approximately six per cent on the capital outlay.

SCOOTERS, MOTOR CYCLES AND MOPEDS

A committee of senior officials of the Ministry of Industrial Development and the Directorate-General of Technical Development is expected to meet shortly to go into the question of licensing additional capacity for the manufacture of scooters. The committee, it is understood, will have before it about a dozen and a half proposals out of which it may select for grant of letters of intent or industrial licences those schemes which are supported by technical and economic data, including the prices of end-products. Currently five firms—(i) Automobile Products, (ii) Bajaj Auto, (iii) Enfield, (iv) Ideal Jawa and (v) Escorts—are manufacturing scooters (including three-wheelers), motor cycles and mopeds. Their output during the last four years has been of the order of nearly 37,500; 49,000; 51,800 and 65,000 numbers, respectively. In 1967, they produced nearly 30,300 scooters, 4,000 three-wheelers, 23,000 motor cycles and slightly over 8,000 mopeds. The installed capacity in this year was of the order of scooters (including three-wheelers) 35,000, motor cycles 23,000 and mopeds 22,500. Despite the steady increase in production during the past four years, there are stated to be at present pending orders for scooters alone to the extent of 250,000. The tentative capacity and production targets for the manufacture of these vehicles for 1970-71 are fixed at 150,000 and 120,000, respectively. Some letters of intent have already been issued to augment capacity, but still there is ample scope for licensing additional capacity.

Messrs Escorts and Ideal Jawa have been allowed to diversify their output by undertaking the production of scooters within their present licensed capacities, but they have still to start manufacturing scooters.

EXPORT ASSISTANCE

Although a number of industries have made representations to the Ministry of Commerce for assistance to counter-balance the adverse effects on our exports of the devaluation of sterling and various other currencies since November last, the union government, it is learnt, has decided that only the long-term aspect of the situation created by these devaluations should be taken into account in modifying the export assistance policy. It feels that no responsibility can be accepted by it for compensation of loss on pending export bills or contracts as such losses are hazards of business. Even in regard to the question of short-term measures to offset the adverse effects of the devaluation of sterling, it is felt that after the transitional period, prices should settle down in the UK at higher levels; the final advantage which the UK exporters would derive from the devaluation would, therefore, be much less than the extent of the devaluation. In an effort to make several of our export goods competitive in world markets, export duties on such items as tea, jute and coir manufactures and finished leather and tanned hides and skins were either scaled down or abolished altogether a few days ago. The Finance Minister is expected to announce a further instalment of incentives for exports in his forthcoming budget speech. The possibility of cash assistance being raised in the case of some export items which enjoy this assistance at present and extension of the cash assistance scheme to some new items of export is not ruled out.

STERLING DEVALUATION AND RAW JUTE

Following the devaluation of sterling and the abolition of export duty by Pakistan, the Consultative Committee of the Food and Agriculture Organisation of the United Nations on Jute, kenaf and allied fibres, has revised the range of raw jute prices for export. The new price has been fixed at £109 plus or minus £6 per long ton export hearts f.o.b. Chittagong/Chalna, as against £97 plus or minus £5 which was the range agreed to in November last. The price of raw jute, thus, has been revised in terms of sterling by the full amount, subtracting, of course, the pre-devaluation export duty of Pakistan. In pursuance of Pakistan's request for revision of grades of raw jute, sample bales of new grades are understood to have been air-lifted to the London Jute Association for its examination of the physical characteristics of the newly defined fibres. The decision of the London Jute Association on the issue, however, is still awaited. Another request of Pakistan, to the effect that an international buffer stock policy for jute should be evolved, is expected to be considered by the principal importers in September next. The world movements of raw jute during the next financial year, it is forecast, will be about 10,000 tonnes lower than what they are expected to be during the current financial year. The forecast places the 1968-69 movements around 945,000 tonnes. Belgium, Britain/Ireland, the United States and Japan are expected to import in 1968-69 raw jute to the extent of 100,000; 120,000; 39,000 and 123,000 tonnes, respectively, as against 100,000; 126,000; 51,000 and 110,000 tonnes in 1967-68. Availability of raw jute for export from Pakistan during 1967-68 was estimated at 763,000/747,000 tonnes. With a view to achieving balance in the world jute market, it has been felt that Pakistan's production should increase by six to seven per cent above that of 1967-68. Exports of raw jute from India, it is estimated, may be of the order of 27,000 tonnes in 1968-69, as against 36,000 tonnes expected in 1967-68.

FROM THE PRESS GALLERY

Political Issues to the Fore

Our Parliamentary Correspondent

NEW DELHI: Friday.

IF POLITICAL and other non-economic issues have been to the fore during the first two weeks of the current budget session of Parliament, there is nothing surprising about it. Coming soon after the Republic Day riots in Gauhati and widespread anti-Hindi agitation in the south and with the West Bengal constitutional tangle continuing unresolved till President's rule was promulgated on February 20, the first few days of the present session of Parliament could be expected to be devoted to these major problems, specially when in his inaugural address to a joint session of the two Houses, the President himself had pointedly referred to the "recrudescence of divisive forces" and the resultant violence. Although the President had also dwelt at considerable length on the current economic situation in the country, suggesting that "the clouds are beginning to lift", the deliberations on economic issues have yet to gather momentum. Economic issues, of course, should come to the fore when the railway budget, presented by Mr C. M. Poonacha on February 19, comes up for discussion next week and thereafter when the consideration of the next year's general budget starts.

It is, indeed, encouraging that, notwithstanding several opposition parties taking resort to agitational approach in the recent past with a view to pressurising the government on various burning issues, a good measure of unanimity has been expressed in both the Houses on the need for checking lawlessness and fissiparous tendencies. The Republic Day rioting and destruction of property at Gauhati, which were characterised by the Home Minister, Mr Y. B. Chavan, as a "disturbing exhibition of narrow regional feelings", were condemned by all the parties during a special debate raised on the issue, although they differed on their diagnosis of the genesis of the trouble. Some members opined that the trouble was the result of the vacillating attitude of the centre towards the reorganisation of Assam. Several others traced the origin of these riots to foreign interference. Some alleged that the centre had failed to act in time even though it had prior knowledge of the likely outbreak of trouble. A demand was made for the imposition of President's rule in Assam. The Home Minister, however, rejected the suggestion for the centre taking over the administration of this state. He also asserted that there was no vacillation on the part of the central government in regard to the reorganisation of Assam. The charge that the centre had fore-knowledge of the Gauhati trouble was as well denied by Mr Chavan.

Major Issues

In the initial stages of the debate on the President's address in both the Houses, apart from the concern over lawlessness in various parts of the country, the major issues that were raised included the anti-Hindi agitation in the south, centre-state relations, foreign policy of the government, state of the economy and planning. As regards the language issue, it was generally stressed that a solution should be found in a way that the people of no state should be subjected to any discriminatory burden. Referring to the centre-state relations, many opposition members called for greater autonomy for states. One member even suggested that the centre's sphere of activity should be limited to foreign affairs, defence and transport and communications. The need for strengthening the centre was stressed by several other members. Some members accused the central government of trying to topple non-Congress governments in some states. On the question of foreign policy also, opinion was no less divided. Some members called for a vigorous policy on Tibet so that this area could

be converted into a buffer state between India and China. Several members thought that the policy of non-alignment had not succeeded and that it should be abandoned. There were quite vociferous pleas for not compromising with Pakistan and China. The west and south-east Asian policies of the government came in for vehement criticism at the hands of many. As regards the state of the economy, although a good deal of satisfaction was expressed over this year's bumper crop, the slow pace of the revival of the economy in general was regretted. The spokesmen of the Swatantra Party called for a holiday in planning.

Towards the close of the debate on the President's address, however, the verdict of the International Tribunal on Kutch, under which about 10 per cent of the nearly 3,500 square miles territory claimed by Pakistan in the Rann of Kutch north of the 24th Parallel, is to be given to that country, became the dominant issue under discussion. The Prime Minister's declaration in a preliminary statement on the issue that the Tribunal's award was binding on both India and Pakistan, was challenged by many.

Censure Motion

The spokesmen of the Samyukta Socialist Party and the Jana Sangh threatened to resist the implementation of the award to the last. Mr Balraj Madhok (JS) tabled a motion to censure the government on the issue; the motion was allowed to be discussed next week. But the most illuminating analysis of the problem was given by the former Foreign Minister, Mr M. C. Chagla, who before joining politics was an eminent jurist. After his forthright denunciation of the Tribunal's verdict, the opposition to the implementation of this award appeared to be growing. Speaking in the Rajya Sabha, Mr Chagla asked the government to consider whether it was bound to accept the Tribunal's award which, he felt, was motivated by political and other extraneous considerations. He was astounded that Pakistan has been awarded about 300 sq. miles of our territory in the Rann of Kutch on the basis of such extraneous considerations as the area being surrounded by the Pakistani territory. If such arguments were given weight, there would be no enclaves anywhere in the world, Mr Chagla argued. He warned the government against taking resort to international tribunals for settling territorial disputes. By taking Kashmir to the Security Council, he said, we had only suffered and now we had got the same treatment from the Kutch Tribunal. "We will never get justice from international tribunals", opined Mr Chagla. This was because arbitrators were not judges determining the issues on judicial grounds but politicians. The former Minister for External Affairs appealed that we must learn to depend on our own strength. Having expressed his strong resentment against the Tribunal's award, Mr Chagla, however, stressed that what he actually implied was that the government should carefully examine the question whether it was bound by the award. If after cool and calm consideration it reached the conclusion that the award would have to be implemented, he was prepared to support the decision.

The official spokesmen who intervened in this debate countenanced the opposition's criticism, but not always very convincingly. Even though the Prime Minister, Mrs Indira Gandhi, intervening in the Lok Sabha debate, reiterated the government stand on the Kutch award, pending, of course, a detailed study of the issues involved, she could hardly carry the House fully with her. Both in the Rajya Sabha and the Lok Sabha, the Prime Minister spoke at length on the lawlessness in some parts of the country. She appealed that instead of launching street agitations, emphasis should be on calm

deliberations in Parliament. On the language issue, she offered to hold talks with all sections with a view to avoiding any discriminatory burden on the non-Hindi speaking people. But before this could be done, she felt, there was need to let tempers cool down. Mrs Gandhi reiterated that the three-language formula was the only way out of the tangle. The Prime Minister also expressed regret at the growth of various kinds of Senas and volunteer organisations in the country. These, she said, were not helping in creating the atmosphere needed to overcome the problems facing the nation. Mrs Gandhi countenanced the allegation that the centre was interfering in state affairs or trying to topple non-Congress governments in any state. She quipped that the same forces which were alleging this interference, had demanded imposition of President's rule (presumably in West Bengal). She deplored the demand for curtailing the powers of the centre. This she thought would mean an end of the Constitution. No problems, she argued, could be solved by making the centre a "nebulous concept". Mrs Gandhi stoutly defended planning. The government's faith in planning, she observed, had been fully vindicated by the country's ability to meet the challenge of external aggression and the internal economic problems of the last few years. She ruled out any "holiday in planning".

Dealing with foreign affairs, Mrs Gandhi observed that many nations were now sharing India's view that in Vietnam the first step should be stoppage of bombing of North Vietnam which would lead to other steps and the way to the conference table. So far as west Asia was concerned, the Prime Minister reiterated the government stand that nobody should be allowed to reap the fruits of aggression. On Pakistan and China, she had nothing to add to what is already known of the government policy. Talking about south-east Asia in general, Mrs Gandhi expressed the view that the security of the nations in this region could not be maintained through military alliances but by their economic strength and political stability. The Prime Minister indicated that the government's decisions on the recommendations of the Administrative Reforms Commission in respect of public sector undertakings would be announced during the current session. The motions of thanks to the President for his address have been adopted by both the Houses. The various amendments to the motion have all been rejected.

Estimates Committee Report

In its thirtieth report, the Estimates Committee of the Lok Sabha has suggested that punishment for those who violate foreign exchange control regulations should be increased from two to five years' rigorous imprisonment. The committee has also pleaded for the appointment of a high-power commission to make "fool proof" laws relating to exchange control. The report presented to the House on February 23, by Mr P. Venkatasubbiah, the chairman of the committee, reviews the recent trends in the balance of payments position of the country.

The committee has stated that the expectations of the government in regard to devaluation of the rupee "have not been fulfilled so far". This measure has not led to any appreciable increase in the country's exports, nor is there any evidence of an improvement in the invisible account as a result of devaluation. The abnormal rise in prices during 1966-67 "has neutralized to a great extent the usefulness of devaluation", states the committee.

The committee has devoted considerable attention to the effect of five-year plans on the foreign exchange position of the country. It notes that the main causes of inflation can be traced to too ambitious plans which have tended to emphasize requirements rather than resources and are not moderated in the light of actual achievements and resources available from year to year. Planning in this country, according to the committee, has suffered from an undue emphasis on size and more specifically on outlays in the public sector. The experience of the third Plan appears to show that much

more important than the size of the Plan is its content and implementation. The committee suggests that the new Plan should not only lay down physical targets in various sectors but also set out practical and concrete measures to bring about the proposed increases in production, exports and savings. The formulation of the fourth Plan, the committee says, should therefore, be preceded by an objective assessment of the reasons for the failure of the third Plan.

The economic survey for the current financial year, presented by the Deputy Prime Minister and Finance Minister, Mr Morarji Desai, on February 23, strikes a hopeful note for the future. The economic strains of the last two years, resulting from consecutive droughts, the survey reveals, are easing. With a sustained effort on the agricultural front, the stage, the survey says, will be set for the fourth Plan due to begin in April next year.

P.A.C. on Annuity Deposits

The Public Accounts Committee in its seventeenth report, presented to the Lok Sabha on February 16, has urged the discontinuance of the annuity deposit scheme at the end of the current financial year. The committee has observed that loans raised under this scheme have not been considerable. "Even from the point of view of raising comparatively short-term resources, the value of the scheme is not particularly great".

The committee has also urged the Finance Ministry to make a detailed study of all aspects of taxation laws which have successfully worked in countries such as West Germany, the US, Belgium, the Netherlands, Norway, Sweden, Japan, Ireland and Malaysia, and also obtain the requisite information from these foreign governments through our missions abroad. The rate of taxation on corporate as well as non-corporate incomes in this country, the committee feels, are generally higher than in foreign countries according to the studies made by the Ministry of Finance. The committee, therefore, opines that the government is not justified in creating a situation where, partly as a result of excessive rates of taxation, the entire economic atmosphere gets vitiated. The committee has strongly urged that the entire tax structure of the country should be critically examined.

The present system of levy of taxes has also been considered onerous and complicated by the committee. The collection of taxes, it observes, has not been efficient. Otherwise, there would have been no need to introduce voluntary disclosure schemes, it feels. In the opinion of the committee a disproportionate amount of energy is spent on unimportant cases of honest and relatively small tax-payers while tax evaders go scot free or are afforded opportunities to make voluntary disclosures. The committee has observed that certain measures are proposed to be taken by the Income-tax Department to divert time and energy at present devoted to small tax-payers to dealing with tax evaders. The matter, it recommends, should be kept under constant review and further steps should be taken to improve and simplify the system of assessment and collection.

The Joint Select Committee on the Central Industrial Security Force Bill, which presented its report to the Rajya Sabha on February 12, has recommended that the proposed Force should not be deputed to protect undertakings run by state governments without the request or prior approval of the states concerned. The committee, however, has approved the basic idea of the centre having a special Force to protect not only the undertakings it runs but also other concerns considered "vital for carrying on the work of an industrial undertaking owned by it." The power of the Force to arrest without an order from a magistrate or without a warrant, the committee further says, should be confined to cognizable offences relating to property or other installations and not to the non-cognizable offences as well. Several minutes of dissent have been appended to this report. Most of these question the need for the proposed legislation. Conditions in industrial estab-

lishments of public sector, they opine, do not warrant such an extraordinary measure. The measure, it is contended, would generate friction between the centre and states in the present political context.

Four bills have been adopted by the Rajya Sabha during the current session so far. One of these—the Rice Milling Industry (Regulation) Amendment Bill—sought to establish progressively the control of community over the rice milling industry. The bill provided that in future preference would be accorded in granting permits for the establishment of rice mills to public sector undertakings such as the Food Corporation of India, and to registered co-operative societies composed exclusively of farmers. It also provided that if any rice mill ceased to operate for a continuous period exceeding one year, it would become a defunct rice mill and a fresh permit would be required for recommencing its milling operation. The bill also aimed at modernising the rice milling industry.

The other bills adopted by this House were: (i) the Delhi and Ajmer Rent Control (Nasirabad Cantonment Repeal) Bill which sought to repeal the parent Act as enforced in the Cantonment of Nasirabad in Rajasthan; (ii) the Press and Registration of Books (Amendment) Bill which aimed at giving some more time to the Jammu and Kashmir government for taking certain administrative actions under the parent Act; and (iii) the Oaths Bill which sought to consolidate and amend the law relating to judicial oaths by omitting sections 9 to 12 of the old Act pertaining to the conclusive or binding character of special oaths which according to the Law Commission, "were opposed to juristic principles and public policy". The Motor Vehicles (Amendment) Bill was referred by the Rajya Sabha to a Joint Select Committee of the two Houses.

Alteration of Boundaries Bill

The Lok Sabha has passed two bills. One of these—the Bihar and Uttar Pradesh (Alteration of Boundaries) Bill—sought to give statutory shape to the recommendations of the Trivedi Commission to settle the boundary disputes between Bihar and Uttar Pradesh. (The dispute had arisen on account of the shifting of the courses of the Ganga and Ghaghar which flow through the two states. The other bill—the Displaced Persons (Compensation and Rehabilitation) Amendment Bill—sought to validate the deductions made by the executive action

in the compensation paid to West Pakistan refugees. Another bill—the Insecticides Bill—which sought to regulate the import, manufacture, sale, transportation, distribution and use of insecticides with a view to preventing the risks to human beings and animals was inconclusively debated by the Lok Sabha.

Question Hour

Tax on Farm Incomes: The Prime Minister, Mrs Indira Gandhi, indicated in the Rajya Sabha on February 15 that the Planning Commission had requested the state governments to explore the possibilities of mobilising additional financial resources from the rural sector through all possible means, including taxation of agricultural incomes. The matter, she added, was still under the consideration of the state governments.

PL 480 Imports: The Deputy Prime Minister, Mr Morarji Desai, stated in the Lok Sabha on February 19 that PL 480 imports during the current year would not exceed seven million tonnes, though a decision was still to be taken in the matter. He did not agree that disbursement of PL 480 rupee funds by the American Embassy contributed to deficit financing. He had also no reason to believe that the rupee funds were being spent in any improper manner. Mr Desai, however, conceded that in certain cases tied loans involved the payment of higher prices for products. But that could not be helped since the borrowing country had to purchase the materials from the lending country. In the case of tied loans, there was no question of inviting global tenders, said Mr Desai.

Bokaro Steel: The union Minister for Steel, Mines and Metals, Dr M. Chenna Reddy, informed the Lok Sabha on February 20 that the first stage of the Bokaro steel plant would be completed by 1971. The project which was expected to produce 1.7 million tonnes of steel during its first phase was estimated to cost Rs 620 crores during this phase. The minister added that the site levelling work had been mostly completed; the remaining work was expected to be finished by the end of March. Of the 31,210 acres of land required, 21,202 acres had been acquired. Civil engineering work in all zones other than the cold rolling mills had been started. Work on the cold rolling mills zone was scheduled to begin in March, 1969.

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WINDOW ON THE WORLD

Food Problems of Developing Countries—II

JOSSLEYN HENNESSY

AGRICULTURAL POLICIES OF DEVELOPED NATIONS

LONDON:

WELL ORGANISED farmers' lobbies exist in all industrialised countries, because agriculture is a relatively declining industry which therefore seeks to defend itself against the forces working to cut down its size.

A striking point made by Mr Thorkil Kristensen, Secretary-General of the Organisation for Economic Co-operation and Development (2 rue Andre Pascal, Paris 16, France) in his important new report to the OECD's Development Assistance Committee, is that the total amount of such support that the developed countries grant to their agriculture today—including both higher prices for the consumer and budgetary payments to farmers—is bigger than the flow of development aid!

This price support has slowed the rationalisation of agriculture and the reduction of farm population which are necessary for a further increase in farm incomes in the developed countries. Moreover, it does not help the small farmers in the way that it was intended. With the rapid increases in production per man-hour now taking place, agriculture in the rich countries no longer needs to receive such support. The OECD therefore proposes that price support be gradually reduced. The money thus saved can be used partly to finance an increase of development aid and partly to support further rationalisation of agriculture in the developed countries themselves, including help to those who give up small farms and to those who need retraining because they seek employment outside agriculture.

Unique Chance

Food aid implies support to farms in the donor country and it can therefore reduce the need for other support measures. There is now, therefore, a unique chance to rationalise and simplify agricultural policies in the developed countries and at the same time to help the developing countries more effectively.

Trade policies concern the food problem because poverty is the main reason why the nutritional standards of many developing countries are low. If they had higher incomes, they would have more and better food, but they can only get higher incomes by more efficient production of food or of other goods that can be exchanged for food.

If, therefore, the period during which a substantial flow of aid is required is not to be too long, it is important to build up the exports of developing countries. Since development requires more and more varied exports from the developing countries, it is important that trade policies in the developed countries should not hinder the expansion of such exports. In particular the developing countries should not be prevented from expanding their production and exports in those fields where they have a comparative advantage, either because of their abundant and cheap labour or because their natural resources differ from those of the industrialised countries.

In agriculture, measures of protection and support are reducing the export possibilities of the developing countries in some fields where they compete with temperate zone products. Meat, cereals, sugar, cotton, some fruits and some vegetable oils are important examples that could be exported in larger quantities from a number of developing countries if

there were no obstacles. (Remember that support to a country's own production reduces imports even though it does not take the form of direct barriers to such imports.) Because of support and protection large quantities of some of these commodities are produced in industrial countries that are less equipped for their production than certain developing countries.

For primary products OECD countries should actively explore ways of making markets more stable where possible.

It is in the export of manufactured and semi-manufactured articles that the greatest possibilities lie for the more distant future. The natural development for the low income countries is to industrialise as the high income countries have done. Industrial exports are one of the means through which some of them can solve their food supplies. Trade policies in the developed countries should not make this more difficult for them.

As to manufactured goods, though protection was reduced in the Kennedy Round, it is still considerable in a number of cases. The possibilities for further reduction should be studied, whether by general tariff reductions or by special preferential treatment for exports from developing countries. Preferential treatment should not, however, be maintained through a long period.

The importance for the developing countries of freer access to the markets of the industrial countries is often more far-reaching than can be seen directly. Exports may be small for some time, even if access is free, because most of the industry of a developing country may still be inefficient. However, those enterprises that can export will expand in doing so and they will normally be the most efficient parts of the industry. A stimulus to other enterprises to increase their efficiency will be another consequence, and the very contact with markets where efficiency is high will create a virtuous spiral of increasing efficiency.

II

PRIVATE INVESTMENT IN DEVELOPING COUNTRIES

The flow of private investment capital to developing countries has on the whole been rising in recent years, though it was lower in 1966 than the year before, partly because of the tight monetary conditions in several countries.

In the near future special attention should be given to investment that can help to increase food production, especially in the "agro-allied industries", e.g., the fertiliser industry, which is so important for food production. For a long time many developing countries will have to import large quantities of fertilisers, but the more that the productive capacity in these countries can expand, the better (and the rapidly increasing demand for fertilisers in the developing regions is a good basis for such investment). A proposal that a fund for the guarantee of investments in the agro-allied industries of developing countries be set up within OECD is now being studied.

Investment in other industries will also be useful, in particular when it can be the basis of exports of manufactured goods from developing countries. Abundant labour at low wages will be available in most developing countries for many years—besides, the developing countries are markets for industrial products that are likely to expand.

The inflow of private capital has not so far been spectacular because (1) although there is abundant and cheap labour, the supply of qualified labour is often rather limited, and (2) the environment is not always satisfactory. The first obstacle can be increasingly overcome as education and professional

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67/298

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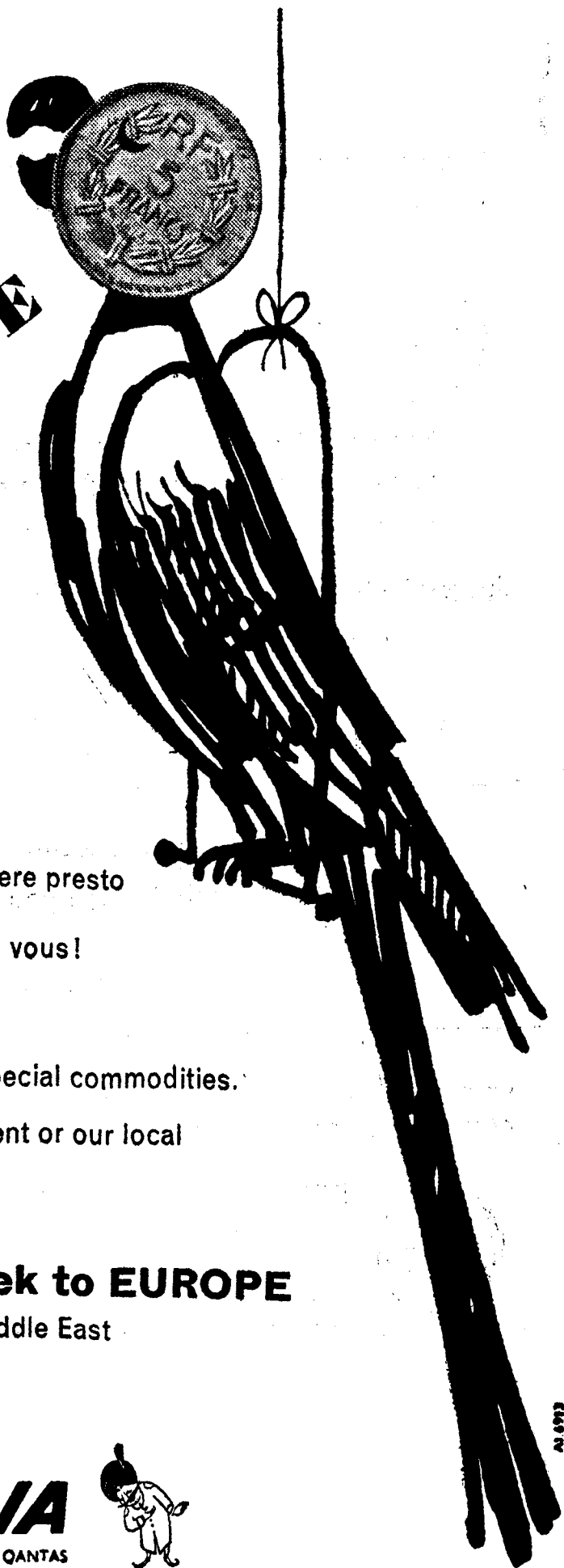
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training improve, and the investing firms often make valuable contributions by organising training for their staffs.

The environment is a more complex problem. There may be political instability or even hostility towards foreign investment. There may be cumbersome administrative procedures and it may be difficult to get machinery repaired, and so on. But these obstacles can be overcome if the government understands the importance and the advantage of foreign investment in its industry. It is encouraging to find that Mr Thorkil Kristensen believes that on the whole the climate for foreign investment seems to be improving slowly. This should continue in the years to come, provided political upheavals can be avoided.

In many cases only the developed countries have the resources necessary for improving agricultural production. Therefore assistance to agriculture will become more and more important in aid programmes. The developing countries should be enabled to undertake the research required to expand agricultural production and to train research workers of their own.

Both fundamental and applied research are needed. Until now most research has been carried out on the problems of the temperate zones, so that knowledge of tropical agriculture lags behind. Adaptive research is also needed so that techniques developed in one area can be geared to natural conditions in others.

Donor countries can support research activities financially and by furnishing equipment and materials. Part of the fundamental research can be in universities and research centres in developed countries but they can also help to set up research and training institutions in developing countries. The OECD's Development Assistance Committee is considering a proposal for an international system of co-ordination of agricultural research under which selected world centres would concentrate on broad basic and applied research in crop and animal production. They would develop new plant types and study the problems of disease control, fertiliser application and so on, and they would train scientists who could then work in regional, national and provincial centres.

III

UNKNOWN FOODS OF TOMORROW

All developed countries should recognise their responsibilities for research in innovation in food production, which concerns not only the quantity—high yielding grain varieties, breeds of animals that give more milk, eggs or meat relative to the quantity of fodder consumed than do traditional breeds—but also the quality of food, especially the content of proteins. It is in protein content that the diet in most poor countries is the most unsatisfactory. But, as incomes rise, if all the demand for food proteins were to be satisfied through animal husbandry, this would mean an enormous pressure on the earth's crop-producing capacity, since it takes about seven calories of feed crops to provide one calory of animal food. Hence there is need for research to find alternative sources of protein or of the amino acids which make animal protein so valuable as foodstuff. Research is already being carried out to try to find out how certain varieties of maize and other plants can be made to contain more of the critical amino acids and how to use certain high-protein content oilseeds such as soya beans and cotton seed as food additives.

The rest of Mr Thorkil Kristensen's report on aid for research into new foods reads like science fiction and opens fascinating visions of delicious five-course meals mass-produced in factories from raw materials not at present held in high regard by gastronomic connoisseurs.

The feasibility of producing protein-rich non-agricultural food is being explored. One possibility would be to catch and prepare for human food small fish and sea animals that are now eaten by larger fish, and other animals only part of which are eaten by men. Research has been going on for

many years on the cultivation of certain algae in artificial surroundings where, since they are capable of utilising the energy contained in sunlight or artificial light much more intensely than plants in the fields, many could be produced in a small space.

The innovation in protein production thought to be most promising is the feeding of single cell organisms—bacteria or yeasts—on petroleum. In the last analysis production would be based on the organic remains of animals and hence would be living on capital left from an earlier period, just as the use of petroleum as a fuel is living on capital, but for a long time to come large quantities of single cell protein could be produced in this way. Research has been undertaken mainly by private enterprise, especially the ESSO/Nestle group and British Petroleum. It is also feasible to feed the single cell organisms on other substrates than petroleum—molasses, the wastes from various plants such as potato tops, wood material from forest wastes, or other organic substances which contain carbon. Methods to extract certain proteins from leaves are being studied, and leaf protein has already been used as chicken food in Israel.

Dramatic Innovation

Of greater importance in the long run than producing proteins may be the solution of the problem of how to supply enough calories overall if the total population of the earth is going to soar to 14,000 or 15,000 millions. It is conceivable that wood can be converted into food for men or feed for animals. The most dramatic innovation would be to produce food without using plants: plants synthesise carbon dioxide from the air with a number of other materials obtained from the soil through the use of the energy contained in sunlight. Could the same process be made to take place in laboratories or even in factories, using either sunlight or other energy sources? Today food cannot be produced in this way, but it is possible to produce on an industrial scale certain amino acids which can be used to fortify foodstuffs or feeding stuffs.

Thus means may be developed by which food can be produced in non-traditional ways. A common feature of them all is that they would make us less dependent on the quantity of good agricultural land available; the more food production becomes industrialised, the more it will depend on other factors than land, namely on labour, capital and knowledge. For a number of years to come, the emphasis in these areas must be on expensive research requiring competent scientists and often costly instruments and materials. Nor is it enough to know if and how the products considered can be produced. The questions as to what extent they are digestible and whether they can have harmful effects if consumed in considerable quantities over a longer period must be examined also.

Note: This is the second of three articles outlining the main points of a new OECD Report. Next week's final article will cover aid and research on population policies.

ATTENTION DELEGATES TO UNCTAD-II

Our publications

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The moving finger writes

EVEN IF it is to be conceded that any stick is good enough these days to beat the Congress with, I am still unable to sympathize with the efforts that are being made to exploit the Kutch award for embarrassing the ruling party at the centre. It is true that Pakistan's aggression has been rewarded, but this had been done when the late Lal Bahadur was persuaded to have the Kutch dispute arbitrated upon. The arbitrators' verdict itself can hardly be blamed in this respect. It is true that we will now have to part with territory which we have regarded and claimed as ours and this must certainly hurt our national ego, especially as the beneficiary is Pakistan. But then it is easy to exaggerate both the nature and the extent of the loss. What the award has, in essence, effected is a relatively minor readjustment of the boundary to our disadvantage. Since this has been done on the ground that, in the view of the majority opinion of the tribunal, the facts and submissions presented to it indicate that Pakistan has a superior title to the territory involved, we, as a people, and our government should accept with good grace a judgment which we had after all bound ourselves in advance to honour and obey. This is both the reality and the morality of the Kutch award and I do hope that political parties will think better of wasting the nation's time, whether inside Parliament or outside, on agitations which must cause us injury, not least in respect of our standing with the rest of the world.

* *

The increases in railway fares have hardly come as a surprise since the ministry concerned has been advertising the financial difficulties of the railway administration for some time in advance of the railway budget, but this does not make it any the easier for the public to reconcile itself to the proposed impositions. This is not merely because we always tend to grudge having to pay more. What hurts is that, besides being asked to pay more and more, we are being asked to accept in return less and less. The woes of the third class passenger are a familiar story, but far less widely appreciated is the rapidly worsening lot of the upper class passengers who, considering the higher fares they pay, are perhaps receiving as raw a deal as those who travel third class. The man who elects to travel first class on our Railways these days, I recommend, should have his head examined for he is certainly letting himself be made a fool of. The carriages seem to have been deliberately downgraded in their appointments as well as upkeep with the single purpose, perhaps, of banishing every illusion of comfort and they are, of course, disgustingly dirty with ancient grime, while the stock reply given on behalf of the Railways for every inquiry about lights that are missing or fans that are not there is that the railway administration is cutting down on such equipment for fear of pilferage. Some might believe that things being as bad as they are, it could at least be assumed that they could not grow worse, but they could be sadly mistaken because the lack of a sense of responsibility in the railway administration is now so complete that a continuous downward drift has come to be the most natural tendency in travel conditions or passenger amenities today. I am certainly against the destruction of railway property in the course of political agitations or demonstrations, but I cannot guarantee that I will not sympathise with those who might some day take it into their heads to wreck bogies simply because they could not put up with travelling in them any more.

* *

The Chairman of the Unit Trust of India, has been threatening us frequently with new plans and schemes for promoting

the business of his institution. I use the word "threatening" advisedly because Mr Bhatt's intentions are hardly likely to enthuse such of us as have a very poor idea indeed of the efficiency with which the Unit Trust is fulfilling its existing responsibilities. Enough has been said in the correspondents' columns of the newspapers to establish the point that the cashing of units has become such a troublesome and time-consuming affair that the promise of liquidity which the scheme carries has been broken in spirit, if not in letter. This kind of inefficiency is of course evident in almost all the routine dealings of the UTI with unit-holders. For instance, many unit-holders are still waiting for the new certificates to be issued to them under the re-investment plan in respect of the dividend declared for the year 1966-67. It is true that, in the name of servicing the unit-holders, the UTI is setting up regional offices. This however seems to us more an illustration of Parkinson's Law than a genuine effort at greater efficiency.

Many responsible observers believe that the UTI has been expanding its bureaucracy to a point where efficiency is breaking down while overheads may be passing out of control. I have also heard the criticism that a major organisational blunder was committed in the first instance when men from the Reserve Bank, with little experience of or aptitude for dealing with the public, were recruited to staff the newly formed UTI. Be that as it may, a review of its administration, both in its personnel and in its practices, should certainly be carried out before the growth of business pushes it into a permanent state of helpless inadequacy.

While on this subject, I would like to question the genuineness of some of the publicity slogans put out on behalf of the Unit Trust. An advertisement says that the Trust paid seven per cent for the last two years free of income tax. Untutored unit-holders might think that this bounteous institution had paid the income tax out of its pockets on his behalf. The truth, of course, is that the Unit Trust enjoys the unique advantage of government-granted exemption from income tax on its dividends up to a limit of Rs 1,000. Secondly, the assertion that there is a cent per cent security of capital invested in units has to be very considerably qualified. The price at which units are generally sold by the Trust is Rs 10.40 each while the repurchase price, similarly generally, is Rs 10.

This clearly means that any unit-holder who has to make a distress sale or otherwise liquidate his holdings is compelled to accept a substantial capital loss besides having to forgo the dividend for the period during which he has held the units. It is worth noting that there seems to be no prospect at all of capital appreciation in the case of these units. In contrast, in Britain unit-holders are able to enjoy substantial capital appreciation. The Lloyds Bank, for instance, recently announced that its unit trust, even in the first year of its working, had been able to secure for its clients capital appreciation of more than 40 per cent; as against an issue price of sh. 10/0 per unit on October 24, 1966, the purchase price on November 1, 1967, was sh. 14/0½ d. I certainly believe that the public in our country is getting a raw deal as a result of the decision of the government to operate the unit trust scheme as a state monopoly instead of allowing private unit trusts also to function and thereby bring to the public the advantages of competition in an area where those advantages could be solid or even spectacular.

V.B.

Trade Winds

U.N.C.T.A.D. DELIBERATIONS

UNCTAD-II concluded its plenary session last week. Summing up the general debate, the president of the conference, Mr Dinesh Singh, observed that a broad consensus had emerged on the fact that "economic development is a matter which concerns all nations, rich and poor alike". It was also recognised that there had to be "international responsibility" for the economic growth of the developing nations. The conference has thus to work for drawing up a charter for the growth of the developing countries. Whether this charter will be drawn up or not, however, remains to be seen. The massive walk-outs by the delegations of Asian, African, Latin American and socialist countries over the participation in the conference of South Africa brought home to the developing nations the idea that it was only through co-ordination and concerted action that they could hope to attain something. Three working groups, set up on February 14, have started functioning. Working Group I, consisting of 55 members, has been set up to consider the world food problem and the transfer of technology from the developed to the developing countries. Working Group II (55 members) will deal with the subject of trade expansion and economic integration among the developing countries and will discuss special measures in favour of least developed countries. Working Group III (34 members) will discuss the special problems of land-locked countries.

Meanwhile, the five committees set up earlier have made tangible progress in their deliberations. Committee I, set up to discuss commodity problems and policy, has already concluded discussion on questions relating to buffer stocks and pricing policy. The developing countries were anxious that buffer stocks of primary commodities (as listed in the Algiers Charter) should be established and should be allowed to be operated in forward as well as spot markets. Committee II (expansion and diversification of exports of manufactures and semi-manufactures of developing countries) has concluded consideration of the question of the duration of a system, and has begun discussion on the question of special provisions for the less advanced developing countries. Committee III (growth, development finance and aid), is currently discussing measures for increasing the flow of international public and private capital and the question of improving the mobilisation of internal resources. Committee IV (problems of developing countries in regard to invisibles including shipping) discussed international legislation relating to shipping. Committee V (trends and problems in world trade and development), after concluding discussion on "steps to achieve a greater measure of agreement on principles governing international trade and trade policies conducive to development", started debating "trade relations among countries having different economic and social systems, including problems of east-west trade". The next plenary session of the conference will meet early in March.

RAILWAY FINANCES

In the opinion of railway officials, the major difficulty that our railways are experiencing at present is that the return on investments made in the recent past on the expectations of increase in traffic, both goods and passenger, is not adequate, primarily because the traffic growth has been halting. With the traffic picking up, the railway finances, it is hoped, will improve considerably, especially when concerted efforts are being made to effect economies in expenditure through such measures as holding in abeyance the filling up of vacancies in several cases, going in for mechanisation for the maintenance of track, bulk purchases of electricity from state electricity boards instead of having captive electric generating capacity, use of electric pumps in place of steam ones and gradual rationalisation of both manpower and equipment. A healthy trend experienced by the railways, official

sources reveal, has been that the average haul per tonne of goods traffic has been gradually increasing in the recent past. No set pattern has, however, emerged as yet in regard to passenger traffic.

In regard to the controversy on whether in its modernisation programme the railways should place more stress on electrification than on dieselisation, some re-thinking, it is understood, is going on, although no change in the policy has been effected as yet. Electrification, it is gathered, is preferred on routes with high density of traffic. Where there is no regular high density of traffic, dieselisation is preferred. The foreign exchange component in the electrification programme—nearly 12 per cent in the railways' own expenditure (10 per cent on import of copper alone) and about 25 per cent if the import requirements of the suppliers of equipment to the railways is also taken into consideration—is another factor that stands in the way of greater resort to electrification. Added to this is the tendency of the electricity charges going up as a sequel to the rise in coal prices. The indigenous manufacture of electric locomotives is another limiting factor though not a material one. Some fresh studies have been undertaken of the likely growth of traffic on various railway routes with a view to ascertaining if electrification of these routes can be expected.

Mr TATA ON ECONOMIC SITUATION

A great new challenge for private sector industry and trade is emerging in India. It is the outcome of trends which suggest that the country is on the threshold of an agricultural revolution. The challenge was spelt out by Mr J.R.D. Tata during his inaugural address to the 60th annual general meeting of the Indian Merchants' Chamber in Bombay on February 20. Although he did not agree that the agricultural revolution had already taken place—he reminded his audience that the output of 95 million tonnes of foodgrains was barely six million tonnes more than that of 1964-65—he readily agreed that increased agricultural production combined with favourable terms of trade would create a rural India in which almost for the first time in recent history there would be a substantial surplus of income over consumption, creating thereby an enormous new market for industry. This economic transformation of the country calls for hard work and fresh thinking on the part of trade and industry, labour and the government to keep up the tempo of the agricultural breakthrough, said Mr Tata. Turning to inflation, Mr Tata said that in recent years, industry, far from being the cause or the beneficiary of inflation, was in fact its victim. What was truly alarming was the current use of large-scale deficit financing for non-developmental purposes, and not for productive expenditure for which at least he could find good reasons. He suggested the following steps for doing away with inflation: a Rs 100-crore a year reduction in defence expenditure through modern computerised techniques of management applied to the procurement, repair and maintenance of our military equipment; a saving of up to Rs 60 crores in the administration and wage costs of government departments and enterprises; and the creation of a surplus of Rs 125 crores from public sector enterprises. These measures would, in course of time, yield about Rs 285 crores which would do away altogether with deficit financing.

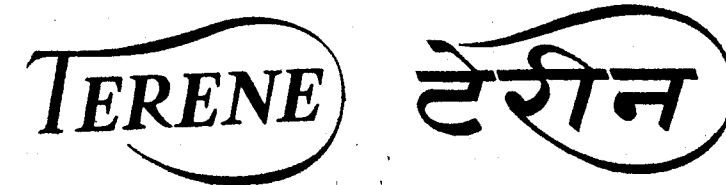
COFFEE PACT

Under the agreement reached in London last week by the International Coffee Council, India's export quota for coffee has been raised from 21,610 tons to 25,380 tons. India, however, is not happy over this increase, since it had asked for a much bigger increase in the quota. While countries with less production have been given a higher quota, India has been allotted only a marginal increase. The Council,

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dovp 67/445

while it was able to reach an agreement on export quotas for producer nations, was not able to evolve a consensus on production curbs, prices, a diversification fund and the problem of instant coffee. India also exports, on a bilateral basis, a substantial amount of coffee.

STATE BUDGETS

Andhra Pradesh

The budget estimates for 1968-69 presented to the Andhra Pradesh Assembly on February 15 by the Chief Minister, Mr K. Brahmananda Reddy, reveal a net deficit of Rs 5.68 crores on revenue account. Receipts and expenditure are placed at Rs 199 crores and Rs 204.68 crores, respectively. While the year 1967-68 was expected to close with an overall deficit of Rs 2.56 crores, 1968-69 would close with an overall deficit of Rs 18.07 crores. The Chief Minister said a portion of this deficit would be covered by additional taxation measures and the balance left uncovered for the present. Revised estimates for the current year are: receipts Rs 191.31 crores against original estimates of Rs 171.66 crores and expenditure Rs 193.91 crores against Rs 184.42 crores. The higher receipts are ascribed to a net income of about Rs 10 crores from the new Land Revenue Act and better collections of state excise duties, sales tax, and stamps.

Maharashtra

The budget estimates of the Maharashtra government for 1968-69 reveal a surplus of Rs 16.92 crores on revenue account at the existing level of taxation. The budget does not contain any fresh taxation proposals. The revenue receipts show Rs 340.09 crores against the revenue expenditure of Rs 323.17 crores. The Maharashtra government has decided to implement the rest of the important decisions on prohibition policy to make available beverages and toddy with low alcoholic content. This was announced in the Maharashtra Legislative Assembly on February 12 by the state Finance Minister, Mr S. K. Wankhede, while presenting the budget. He mentioned in this connection that the government had not considered this matter from the point of view of getting additional revenue. The addition to the revenue on this account would be only incidental, he added.

Gujarat

The budget estimates for 1968-69 of the Gujarat government presented on February 16 in the state legislative assembly by the Finance Minister, Mr Jaswant Mehta, show a revenue surplus of Rs 13 crores. The revenue receipts are estimated at Rs 164.53 crores and revenue expenditure at Rs 151.58 crores. The budget estimates, however, show an overall deficit of Rs 1.42 crores after taking into account capital expenditure. Nevertheless, the Finance Minister expected an overall surplus of Rs 2 crores taking into account economy measures adopted by the government during the current year and the next year. No additional taxes have been imposed.

Kerala

The Kerala budget for 1968-69 presented by the state Finance Minister, Mr P. K. Kunju, to the state assembly on February 16 showed a revenue deficit of Rs 13.68 crores. The Finance Minister did not propose any new taxes or increase in existing rates of taxes. Mr Kunju estimated the revenue for the coming year at Rs 131.01 crores and expenditure on revenue account at Rs 144.69 crores. The Finance Minister said that he did not venture to place any scheme for introduction of new taxes or for stepping up the rates of existing taxes as the Taxation Inquiry Committee appointed by the state government would go into all aspects of taxation at the state level.

EMERGENCY INSURANCE ENDS

With the revocation of the proclamation of emergency with effect from January 10, 1968, the Emergency Risks (Goods and Factories) Insurance Act, 1962 ceased to be in force on that date. The premium already fixed for the

quarter January to March 1968, in respect of the property which became insurable for the first time during January 1 to 9, shall be payable for the month of January only—the premium being one-third of the quarter rates subject to a maximum of eight rupees.

IDIKKI PROJECT

The Idikki hydel project in Kerala was inaugurated by the union Minister for Irrigation and Power, Dr K. L. Rao, on February 17. The Canada-aided project is the largest hydel project taken up so far in Kerala and will generate annually about 1,800 million kWh on completion. The project, said Dr Rao, would bring about an industrial revolution in the state, since its power production would be raised to 140 kWh from the existing 40 kWh.

H.E.C. PACT WITH W. GERMANY

The Heavy Engineering Corporation has entered into an agreement for technical collaboration with a West German firm for the manufacture of roll grinding machines of diverse capacities. The agreement will enable the heavy machine tools plant to manufacture roll grinding machines of swings from 500 mm to 1,000 mm for both travelling work piece and travelling grinding wheel types and will diminish gradually the import of these machines besides ensuring their availability to user industries, such as steel, paper, textiles etc.

LEIPZIG FAIR

The spring fair at Leipzig (GDR) will be held from March 3 to 12. India will be one of the biggest overseas exhibitors at this fair, with over 200 exhibitors, both from the private and public sector, displaying their goods, including both traditional and non-traditional items, such as textile machines, printing and allied machinery, machine tools, steel products and engineering products. The Indian participation is being organised by the Indian Council of Trade Fairs and Exhibitions. The fair would provide ample opportunities for those industrialists who had plans for expanding their present production capacities, as well as finding new markets for their manufacturing items. The fair would give them an opportunity to introduce their items in the international market and also get in touch with the buyers coming from over 100 countries.

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Applications for transfers received in this Office before 12 O'clock noon on Tuesday, the 19th March 1968 will, if otherwise satisfactory, be registered at that date for the purpose of participation in the above dividend.

BY ORDER OF THE BOARD
D. P. M. KANGA
AGENT

VICTORIA HOUSE,
CALCUTTA, the 16th February 1968.

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As at 31st Dec. 1966		As at 31st Dec. 1967	
Rs.	P.	Rs.	P.
8,28,51,347 67	(i) Debts considered good in respect of which Bank is fully secured.	8,44,10,973 00	
15,87,964 66	(ii) Debts considered good for which the Bank holds no other security than the debtors' personal security.	21,47,184 30	
3,63,92,323 07	(iii) Debts considered good, secured by the personal liabilities of one or more parties in addition to the personal security of the debtors.	3,29,46,881 51	
...	(iv) Debts considered doubtful or bad, not provided for.	...	
12,04,21,640 40		11,95,05,038 81	
3,54,131 31	(v) Debts by Directors or Local Board members or officers of the Bank or any of them either severally or jointly with any other persons.	4,63,976 77	
...	(vi) Debts due by companies or firms in which the Directors or Local Board members of the Bank are interested as Directors, partners or Managing Agents or, in the case of private companies, as members.	...	
4,63,550 59	(vii) Maximum total amount of advances, including temporary advances, made at any time during the year to Directors or Local Board Members or officers of the Bank or any of them either severally or jointly with any other persons.	5,13,743 11	
...	(viii) Maximum total amount of advances, including temporary advances, granted during the year to the companies/firms in which the Directors or Local Board Members of the Bank are interested as directors, partners or managing agents or, in the case of private companies, as members.	...	
1,19,936 17	(ix) Due from banking companies.	1,05,674 69	

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31st DECEMBER, 1967

EXPENDITURE		INCOME	
Year ended 31-12-1966	Year ended 31-12-1967	Year ended 31-12-1966	Year ended 31-12-1967
Rs. P.	Rs. P.	Rs. P.	Rs. P.
1,12,74,064 61	1,35,34,445 14	1,55,82,199 65	1,85,74,786 76
53,40,255 17	63,04,213 54	23,84,330 02	29,61,635 68
2,860 00	2,520 00	7,747 00	11,713 55
2,71,742 91	2,83,566 35	...	...
55,287 41	23,146 58	...	...
2,17,604 33	2,47,250 58	...	...
5,000 00	5,000 00	...	...
1,75,433 58	1,71,229 99	...	...
1,70,194 62	1,97,970 09	...	...
4,37,115 73	5,40,146 50	28,997 35	30,005 30
6,39,595 62	6,89,144 11	5,85,879 96	4,20,491 59
1,85,89,153 98	2,19,98,632 88	1,85,89,153 98	2,19,98,632 88

PARTICULARS OF REMUNERATION RELATING TO THE GENERAL MANAGER.
THE STATE BANK OF PATIALA
HEAD OFFICE, THE MALL, PATIALA.
For the years 1966 and 1967

For the year ended 31st December	Salaries	Allowances	Sitting fees	Bonus	Employer's contribution to Provident Fund, Pension Fund or any other super-annuation Fund.	Payments by way of gratuities, pensions or otherwise, in excess of the employer's contributions and interest thereon.	The monetary value of any other benefits or perquisites.	Total of items (i) to (vii)
	(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)	(viii)
1966	Rs. 32,927.42*	208.38	—	—	3,312.07	—	Rs. 4,668.00†	Rs. 41,115.87**
1967	Rs. 30,000.00	—	—	—	2,965.68	—	Rs. 4,668.00†	Rs. 37,633.68***

* Inclusive of Rs 2,927.42 paid to the incoming General Manager during the period of his taking over from the 22nd November to 27th December, 1966.

** Excludes (Rs 5,209.85) paid by the Bank to the State Bank of India for leave salary and pension and Provident Fund Contributions thereon.

*** Excludes (Rs 4,674.18) paid by the Bank to the State Bank of India for leave salary and pension and Provident Fund Contributions thereon.

† This represents the amount of rent paid for the General Manager's residence.

THE STATE BANK OF PATIALA
REPORT OF THE AUDITORS

TO THE STATE BANK OF INDIA.

We, the undersigned Auditors of the State Bank of Patiala appointed under sub-section (1) of section 41 of the State Bank of India (Subsidiary Banks) Act, 1959, do hereby report upon the Balance Sheet as at 31st December, 1967 and the accounts of the Bank for the year ended that date.

We have audited the foregoing Balance Sheet and the Profit and Loss Account and the accounts relating thereto in the Head Office and the returns submitted and certified by the Branch Managers, which returns have been incorporated in the above Balance Sheet and accounts and report—

(i) that, in our opinion, the Balance Sheet is a full and fair one, containing all the necessary particulars and is properly drawn up so as to exhibit a true and correct view of the affairs of the Bank, according to the best of our information and the explanations given to us and as shown by books of the Bank;

(ii) that, where we have called for any explanation or information, such explanation and information have been given to us and have been satisfactory;

(iii) that the transactions of the Bank which have come to our notice have been within the powers of the Bank;

(iv) that the returns received from the branches of the Bank have been found adequate for the purpose of our audit;

(v) that the Profit and Loss Account shows a true balance of Profit for the period covered by such account;

(vi) that, in our opinion, the Balance Sheet and the Profit and Loss Account are drawn up in conformity with the law; and

(vii) that, in our opinion, books of account have been kept by the Bank as required by Law.

Delhi,

Dated: 5-2-68/16th Magha 1889 Saka

SANTOKH SINGH ANAND
Chief Accountant

H. C. VISHNOI
Dy. General Manager

K. SUBRAMANIAN
General Manager

RAY & RAY
Auditors

V. T. DEHEJIA
Chairman

Directors
(M. A. Chidambaram
(K. S. Malhotra
(Kushalpal Singh
(Bhalindra Singh
(N. Ramanand Rao
(S. D. Varma
(Ram Narain
(Kesho Ram Passey



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MBA. SAN. 6829

Company Affairs

HERDILLIA CHEMICALS

THE RS 14-crore petrochemicals complex of Herdillia Chemicals Ltd has gone on stream and it was inaugurated recently by the Deputy Prime Minister, Mr Morarji Desai. It is a unique venture in that it is a tripartite collaboration involving three giant companies in India, the UK and the USA, viz. the E.I.D.-Parry Ltd, B.P. Chemicals (UK) Ltd (formerly Distillers Chemicals and Plastics Ltd) and Hercules Inc. (formerly Hercules Power Company) of the USA.

Herdillia is an entirely new concept in that for the first time chemicals are being manufactured from naphtha-based feedstock as a natural consequence of the establishment of oil refineries in Bombay and in accordance with the planned development of the petrochemical industry. The plant, which spreads over an area of 115 hectares on the Thana-Belapur Road, will manufacture annually 10,000 tonnes of phenol, 6,000 tonnes of acetone, 2,000 tonnes of diacetone alcohol, 6,000 tonnes of phthalic anhydride and 3,000 tonnes of phthalates. These are heavy organic chemicals and they will serve as basic intermediates for a variety of finished products ranging from resins to cosmetics on the one hand, to drugs and pharmaceuticals on the other.

The company hopes to achieve 60 per cent of the rated capacity during the current year. When in full production the annual turnover will be of the order of Rs 9 crores and it will be saving Rs 6 crores of foreign exchange per year by producing chemicals which have hitherto been imported.

The total project cost estimated at Rs 10.59 crores has since escalated, due to the effects of devaluation of the rupee and other factors, to Rs 14.01 crores including the revised working capital of Rs 1.50 crores. The company hopes to undertake large-scale expansion in the coming years in view of the spectacular growth in the petrochemical industry. As demand grows, the annual output of acetone will be raised to 9,000 tonnes while the production of phenol will be expanded to 15,000 tonnes per annum. All in all, Herdillia Chemicals is expected to grow tremendously in the coming years and play a dynamic and leading role in the industrial development of the country.

PAPER PRODUCTS

Paper Products Ltd has reported encouraging working results during the year ended July 31, 1967, with sales and profits recording substantial improvements over the previous year. Sales went up from Rs 3.11 crores to Rs 3.72 crores while gross profit increased from Rs 39.65 lakhs to Rs 46.63 lakhs. The directors have, however, decided to skip the equity dividend for the year with a view to conserving funds for financing the expanded activities of the company and for meeting the rising working capital requirements. But the directors propose to issue, subject to the consent of the shareholders, bonus shares in the ratio of one share for every five equity shares held by capitalising Rs 12 lakhs out of the company's general reserve. The directors also propose to issue 13,000 (9.5 per cent) cumulative redeemable preference shares of Rs 100 each. The proceeds of the issue will be utilised for providing additional working capital and to improve the capital base.

Out of the gross profit, the directors have allocated a sum of Rs 16.43 lakhs for depreciation as against Rs 14.03 lakhs in 1965-66. The appropriation to taxation reserve was enhanced from Rs 9.81 lakhs to Rs 11.00 lakhs while the allotment to development rebate reserve was stepped up from Rs 2.98 lakhs to Rs 5.63 lakhs. The managing agents' remuneration absorbed Rs 3.26 lakhs as compared with Rs 2.67 lakhs in the preceding year. This leaves a higher net profit of Rs

10.31 lakhs as against Rs 10.17 lakhs in the previous year. After bringing in Rs 891 and making other adjustments, an amount of Rs 10.58 lakhs was transferred to general reserve.

Sales and profit would have been higher but for the 65-day strike at the company's Roha paper unit, increased cost of raw materials and higher salaries and wages. Despite the strike, the Roha unit earned a higher profit of Rs 9.76 lakhs as against Rs 8.58 lakhs in 1965-66 while the revenue from sales was almost maintained at the previous year's level. With a steep rise in sales from Rs 5.52 lakhs to Rs 10.67 lakhs, the Faridabad unit reported a profit of Rs 87,484 as compared with a small loss of Rs 3,403 in the preceding year. The profit of the Thana unit rose from Rs 31.11 lakhs to Rs 35.99 lakhs while sales improved by Rs 0.56 crore to Rs 2.83 crores.

MAFATLAL

Mafatlal Fine Spinning and Manufacturing Co. Ltd is offering to the public for subscription at par 20,000 first mortgage registered debentures (1978-80) in units of Rs 1,000 each, carrying an interest of 7.75 per cent per annum. The subscription list opens on February 29 and will close on March 11 or earlier at the discretion of the directors but not earlier than March 5, 1968. The company has an authorised capital of Rs 2.50 crores and an issued, subscribed and paid-up capital of Rs 2.03 crores. The present issue is for Rs 3 crores in 30,000 debentures of Rs 1,000 each. Out of the present issue, debentures of the value of Rs 1 crore are to be issued to Messrs Mafatlal Gajalbhay & Co Pvt Ltd as and by way of collateral security in respect to the counter-guarantees given by them to the financial and other institutions on behalf of the company from time to time. The remaining debentures worth Rs 2 crores are now offered to the public for subscription. The public issue is fully underwritten.

The proceeds of the present issue will be used partly for the repayment of the term loans advanced to the company by the Bank of Baroda Ltd and Dena Bank Ltd and partly for replenishing the company's resources.

TATA FISON INDUSTRIES

Tata Fison Industries Ltd will soon be setting up a plant for the production of Sumithion, a Japanese insecticide, under licence from Sumitomo Chemical Co. Ltd which holds the patent for the product. Negotiations are well under way with the Japanese firm and if they are finalised Tata Fison will be putting up a Rs 50-lakh plant at Thana Belapur Road. Under the terms of the contract, the company would pay royalty to the Japanese partner and a lump sum, to be decided later, for the technical know-how.

The plant will be manufacturing 500 tonnes of Sumithion per annum initially. Sumithion has unusually low toxicity and is particularly suited to paddy, though it is a versatile broad spectrum chemical. It has already had over 100 trials in different farms all over the country.

AUDCO INDIA

The new factory set up by Audco India Ltd at Manapakam near Madras for the manufacture of pressure lubricated taper plug valves was commissioned last week by Mr C. N. Annadurai, Chief Minister of Madras. Audco is an associate company of Larsen & Toubro Ltd and was formed in technical collaboration with Serck Audco of the UK, a member of the Serck group. The new factory, which will supplement Powai's production, will manufacture cast iron valves, cast steel valves and Audcoloy (Austenitic alloy cast iron) valves of different varieties suitable for working pressures of different ranges. New types of valves will also be undertaken to meet the needs

of fertilizer plants, refineries, steel plants, petrochemical complexes and scores of other industries. Efforts will also be made to manufacture stainless steel valves.

ASSOCIATED ELECTRICALS

Associated Electrical Industries (India) Ltd is embarking upon a substantial expansion programme for raising its output of electrical motors and starters. Production of medium voltage air circuit breakers and associated fuse gears undertaken in collaboration with Whipp and Bourne, UK, is expected to commence by the end of the current year. The market for marine and industrial applications is being exploited. Preliminary work has started for the production of crane control gear. Negotiations are in progress with the world's leading manufacturers of steering gear for naval and merchant ship applications.

In the annual report for 1966-67 the directors state that with the merger of Associated Electrical Industries Ltd, UK, and the General Electric Co. Ltd, UK, the company will be deriving considerable benefits and advantages. In India, negotiations have commenced with the General Electric Co. of India Pvt. Ltd for merger and the terms and conditions of the proposed merger will be placed before the shareholders shortly.

STATE BANK OF PATIALA

The State Bank of Patiala, a subsidiary of the State Bank of India, has reported impressive working results during the year ended December 31, 1967, with deposits, advances and profits recording marked increases over the preceding year. Deposits jumped to Rs 38.13 crores, registering a rise of as much as Rs 7.91 crores over 1966. Gross earnings went up significantly from Rs 185.89 lakhs to Rs 219.99 lakhs. But the handsome improvement in earnings was neutralised by the appreciable rise in expenditure which rose by Rs 33.61 lakhs to Rs 213.10 lakhs. Enhanced establishment charges and higher cost of deposits accounted for a major part of the rise in expenditure.

The bank continued to follow a dynamic and imaginative policy in the matter of granting advances. Fresh credit advanced during the year was mainly for productive purposes. At the end of 1967, advances stood at Rs 11.95 crores and it touched an all-time high of Rs 16.54 crores at the peak of 1966-67 busy season as compared with Rs 11.91 crores in the previous busy season with credit-deposit ratio surging forward from 54.20 per cent to 57.37 per cent.

As in the past the bank continued to grant liberalised credit facilities to small-scale industries and co-operative institutions. The number of small-scale units assisted rose from 218 to 253 with credit limits sanctioned moving up by Rs 0.33 crore to Rs 2.40 crores. In the case of co-operative institutions total limits multiplied by five times to Rs 8.75 crores. A parallel rise was recorded in the matter of extending credit facilities against warehouse receipts. The total limits to this sector leaped from Rs 2.43 crores to Rs 8.99 crores.

In consonance with the national priority accorded to the agricultural sector, the bank is formulating a number of schemes to extend credit facilities to agriculturists. Steps have already been taken by the bank to establish a special cell at the head office to devise ways and means to help the agricultural sector while a few officers are being specially trained to man the agricultural finance department.

A significant step forward was also made by the bank in handling foreign exchange business. A start was made during the year by establishing a foreign exchange section at the head office. Arrangements have been entered into with correspon-

dents in several important countries and the bank has commenced transacting all types of foreign exchange business at all its offices.

A vigorous policy was pursued by the bank in the implementation of its branch expansion programme especially in opening offices in remote and unbanked rural areas. The bank opened in April last its second 'one-man' office at Dera Bassi and the working of this office has proved to be a great success. Two more offices were added during the year one at Morinda and the other at Bhupindranagar, Patiala. Thus the bank had a total number of 74 offices at the end of 1967 as against 71 at the close of the previous year.

After making the usual and necessary provisions the bank has earned a net profit of Rs 6.89 lakhs as compared with Rs 6.40 lakhs in 1966. The directors have stepped up the appropriation to reserve fund by Rs 10,000 to Rs 140,000 while the amount set aside for payment of bonus to staff was raised by Rs 20,000 to Rs 370,000. The amount transferred to staff welfare fund was maintained at Rs 10,000. The directors have recommended a dividend of five per cent, the same as in 1966. It will absorb Rs 1.75 lakhs. The surplus of Rs 936 has been carried forward to the next year's accounts.

BHOR INDUSTRIES

Bhor Industries Private Ltd—pioneers and at present one of the largest manufacturers and exporters of plastics,—celebrated its silver jubilee recently. The last 25 year was one of phenomenal growth, expansion and rapid consolidation in all branches of its activities. Not content with its past proud record of outstanding achievements, which included several firsts in its product range, the company is now venturing into new lines of manufacture and it looks forward to an exciting future, as eventful as in the past, with robust optimism and confidence.

Starting almost from a scratch, the company has grown into a gigantic organisation. In 1943, the company commenced manufacturing fumigation tents for the government, at premises in the princely estate of Bhor. Gradually other items such as groundsheets, oil cloth and bookbinding cloth were added. The leather cloth section was opened in 1945. The plant continued with the manufacture of coated fabrics by the spreading process till 1955. About two years ago, a complete modernisation scheme was put through, giving the plant the latest equipment and expanding the scope of production.

As the demand for the company's products increased, plans were made to open a second plant at Worli. The plant began manufacture in 1956 with the company's first calendering unit, imported from West Germany. This unit made possible the production of a wide range of coated fabrics as well as unsupported PVC films and sheetings.

The next phase in the programme of expansion and diversification was the building of the third and largest manufacturing plant at Borivli in 1963. A second calendering unit was imported from the USA. With an installed capacity of 500,000 kilos, the plant made tremendous strides in its range of production. Several new items were introduced for the first time in India, among them vynatile floor tiles, steelgrip insulation tape and feather touch foam leather. The plant has a full-fledged quality control department which conducts tests at every stage of manufacture. Bhor Industries is the only member of plastics industry to undertake quality control tests on such a large scale.

In the years that lie ahead, the company has plans for expansion in old and new lines. There are blue prints for a fourth plant and the manufacture of asbestos vinyl flooring with technical assistance from overseas.

RECORDS AND STATISTICS

Railway Budget: 1968-69

THE RAILWAY budget for the year 1968-69 was presented to Parliament by Mr C. M. Poonacha, Minister for Railways, on February 19. Almost all classes of railway users are proposed to be taxed to raise Rs 28 crores to wipe off the deficit and show a nominal surplus of Rs 1 crore.

Given below are the text of the speech delivered by the Railway Minister and the memorandum explaining the budget proposals:

Beginning with the last completed year. I am glad to report that when the accounts for 1966-67 were closed the deficit was reduced to Rs 18.27 crores from the earlier estimate of Rs 24 crores as there was a saving of Rs 5.75 crores in ordinary working expenses. The saving was mainly because less staff were appointed, less ballast purchased and less repairs to buildings and structures carried out in the closing weeks of the year.

I wish I had a better account to give of the current year. Honourable Members will recollect that in deference to the views expressed in the House I had moderated my proposal for increase in the ordinary third class passenger fares and exempted foodgrains from the three per cent increase in the supplementary charges on goods. These two changes had the effect of converting the nominal surplus of Rs 1.28 crores in the budget presented by me to a small deficit of about Rs 2 crores. The estimate of earnings from goods traffic in the current year had been worked out on the expectation of an addition of revenue earning traffic of 8½ million tonnes. But the trend of goods traffic this year has been very disappointing, due, no doubt, to the current recession in the economy. Revenue traffic remained almost at the level of last year up to the end of August, but in September there was a sudden drop of nearly one and a half million tonnes, and a further drop of another half a million tonnes in October, leaving us with a shortfall of about two and a quarter million tonnes at the end of October as compared to last year. Traffic in November and December was a little better than last year reducing the shortfall to 1.7 million tonnes by the end of December. On the subsequent trend of traffic it is very likely that we will end the current year with about one million tonnes less of revenue earning traffic than the 164.2 million tonnes achieved last year. Accordingly, in the revised estimate I have reduced the earnings from goods traffic by Rs 17 crores from the budget figure of Rs 526 crores.

Changed Pattern

I may mention in passing that, though this year has been very difficult for railway operation in many respects, the failure to achieve the estimated increase in goods traffic has in no way been due to any failures on the part of the railways. The pattern of traffic flows changed with the heavy import of foodgrains which severely strained port capacity at Bombay, Visakhapatnam and Calcutta, so that the railways were obliged to move supplies to the drought-stricken areas of Uttar Pradesh and Bihar from distant ports like Madras and Kandla, which often involved the movement of empty wagons over long distances. Despite these difficulties and handicaps the railways were able to move between April and November 1967 two million tonnes of foodgrains to the scarcity areas from these ports and were able to meet fully and promptly all demands for the movement of foodgrains. In fact, since July 1967, the outstanding indents for wagons have generally been less than one average day's loading on the broad gauge. With the further increase in the capacity of the ferry across the Ganga at Farakka and the transshipment capacity at New

Bongaigaon and New Jalpaiguri, the movement of traffic to north Bengal and Assam has been free practically throughout the year. Traffic between the south and north of the country and along the east coast route also has been moving freely, quota regulations via Waltair having been withdrawn.

The rate of increase of passenger traffic this year has been slightly better than was anticipated in the budget, but this will only make up for the loss of earnings from the reduction in third class ordinary fares that I had agreed to during the budget discussions. I have, therefore, made no change in the revised estimate of passenger earnings from the budget estimate of Rs 255.25 crores. The changes in the estimates under other coaching, sundry earnings, and earnings awaiting realisation are of a minor character.

In the result, total gross traffic receipts are expected to be Rs 17.45 crores less than the budget of Rs 847.00 crores.

Working Expenses

Ordinary working expenses are now estimated at Rs 22.53 crores more than the budget. Out of this, Rs 1.65 crores for payments to port trusts, is not an increase over the budget in a real sense but only in a technical sense, being due to a change in accounting procedure; the real increase over the budget is only Rs 20.88 crores. Of this, Rs 2 crores again is not in fact a real increase as it is a part of the arrear rental that became payable to the posts and telegraphs department for line wire and cables after the framing of the budget. The balance of Rs 18.88 crores is made up of two items, the additional amount of dearness allowance of Rs 10.62 crores and the additional requirement of Rs 8.26 crores for fuel. The bulk of the increase under fuel, as much as Rs 5.10 crores, is due to the increase in the price of coal from September 1967 following decontrol and Rs 1.54 crores on sales tax on coal, diesel oil and electric power relating to the previous year. There has been a saving of about Rs 3 crores on expenditure on staff and of about Rs 1½ crores on fuel, due mainly to traffic having been at a lower level than was anticipated in the budget. But sundry increases have offset these savings. It will be seen from what I have said that the increase of about Rs 22½ crores is almost fully accounted for by post-budget developments which were entirely beyond the control of the railways, particularly the increase in dearness allowance and in the cost of fuel.

Since a reduction of at least Rs 6 crores is now expected in the withdrawal from the depreciation reserve fund and we have a difficult revenue position, I propose to reduce the contribution to the fund from the budget figure of Rs 105 crores to Rs 95 crores. I also propose to reduce the contribution to the railway pension fund from the budget figure of Rs 15 crores to Rs 10 crores. Even so the accrual to the pension fund during the year will be Rs 8.05 crores and disbursement Rs 5.27 crores.

In the final result, we get a deficit of Rs 22.59 crores for the year.

While I have been maintaining unabated pressure on the railway administrations to effect the maximum possible economy in working expenses, I cannot claim that the results achieved could not have been better; and I have reason to hope that they will be better in the coming year. But I have to request the honourable Members to bear in mind what I had explained during the budget discussions last year are necessarily the limitations and impediments in achieving any large economies in a short period. I have the further difficulty that what economies we can secure can take care of only a fraction of the inescapable increase in operating costs from year to year. I need refer to only a few of these. The pay commission's scales having not yet stabilised, the annual

increments on the time-scales have for some years been adding nearly Rs 5 crores to the wage bill each year. The periodical increases of dearness allowance now total up to about Rs 92 crores, the increase in this year itself being as high as Rs 28.25 crores. Fuel prices also have been going up steadily. From the beginning of 1961-62 up to the middle of 1967 the increase in statutory prices, including cesses, was as much as Rs 7.62 per tonne, and following decontrol the prices have gone up by another Rs 6 per tonne, so that the pitmouth cost of coal has risen by nearly Rs 13 per tonne over 1961-62 prices. The rate of sales tax on coal increased from two per cent to three per cent from July 1, 1966. There have also been successive increases in the duties and sales tax on diesel oil. On account of these factors alone, the railways' fuel bill has risen by over Rs 22 crores since 1961-62.

Then, in recent years there has been the increase of about Rs 10 crores every year in dividend on the capital-at-charge. In this context a word on the subject of capital investment on the railways will be appropriate. The increase in goods traffic has been substantial. It rose from about 44,000 million net tonne kilometres in 1950-51 to nearly 117,000 million net tonne kilometres in 1965-66—an increase of about 165 per cent in fifteen years. In the earlier part of this 15-year period capital outlay was relatively low, partly because rehabilitation had priority over additions to assets during the first Plan and partly because it was possible "to pick up the slack" in installed capacity with comparatively small capital investment. Thus the average increase in the capital-at-charge during the first five-year Plan was less than Rs 29 crores a year. As traffic increased further, cheaper methods for increasing capacity were first adopted, like reducing the length of block sections, improved signalling, providing more crossing stations, or increasing the length and weight of trains, and only when these measures proved inadequate or could not have given the required increase in line capacity, were more expensive measures undertaken, like doubling certain sections of line or converting certain sections from metre gauge to the broad gauge or building new lines. In the second Plan period the average annual expenditure on capital account rose to Rs 110 crores and in the third Plan period it rose to about Rs 228 crores, the peak having been Rs 275 crores reached in the year 1964-65.

Special Features

Here I have to remind honourable Members of certain special features of expansion of railway capacity. Firstly, the construction of new lines or the doubling of existing lines etc. have necessarily to take two to four years for completion and commissioning, and since a number of such works have to be always in progress a large amount of capital is tied up in such works without yielding any return. Secondly, increases in capacity can rarely be tailored to meet just the minimum required from year to year, and when a section is doubled or a new line is built it usually takes a few years for the traffic to grow to the level at which the additional capacity is utilised to optimum advantage and the full anticipated return realised. Lastly, line capacity found in excess in any section is not transferable to another where there may be shortage. Thus we have come to have such examples as of capacity created on specific sections to handle the projected heavy traffic of raw materials and finished products of steel plants or the projected large increases of traffic in coal from east India to the west having remained only partially utilised because the development of steel plant traffic and coal traffic has been much slower than was expected.

As soon as indications appeared about two years ago of a definite slowing down in the rate of increase of traffic, capital expenditure was suitably curtailed from the peak of Rs 275 crores touched in 1964-65 to Rs 161 crores in 1966-67 and Rs 150 crores in the current year, and this in spite of increase in prices and costs. Any further reduction in capital expenditure would have been neither feasible nor desirable. We have had to pay due regard to the need for maintaining a level of capital outlay that would not lead to excessive idle

capacity in industry, particularly the wagon building and other engineering industries, to the detriment of the economy. A planned development of a railway system and capacity does require sustained and steady capital investment over a period of time. Too great a reduction in the works programme would further lengthen the period during which the substantial amounts already invested in the works in progress would not yield any return and could prolong the existence of bottlenecks which have been constricting traffic even at its present level.

In the current year the revised estimate of expenditure on works chargeable to capital, the depreciation reserve fund, the development fund and revenue has been reduced by about Rs 19 crores, from the budget of Rs 305 crores to Rs 286 crores.

Thus, both the revenue and capital expenditure has been strictly controlled to the optimum extent.

While the economic recession has certainly affected the budgetary position of the railways, I am glad to be able to say that the financial structure of the Indian railways remains sound. The deficit last year and in the current year is not a working deficit. The railways have covered working expenses and have not defaulted on dividend payment. They have struck a bad patch due to an unexpected pause in the planned development of the economy, and to meet this situation they are drawing upon their dividend equalisation fund, i.e. the revenue reserve fund, which was built up precisely for such a contingency.

A Matter of Satisfaction

It can be a matter of some satisfaction and even pride to the railways, that in the last 16 years they kept down the increases in the charges to their customers as low as possible and only just enough to give a surplus to cover the expenditure from the development fund on unremunerative improvements that could not bring a return sufficient to justify their being debited to capital. They were able to do this because during this period although prices and wages had been steadily increasing the traffic had also been expanding steadily and appreciably. The increase in average earnings in 1967-68 over that of 1951-52 per tonne kilometre has been of the order of only 50 per cent and per passenger kilometre of 38 per cent. During the same period, the price of coal has risen by 115 per cent, of iron and steel by 143 per cent and the per capita cost of employees by 106 per cent. This disparity between the increase in costs and increase in charges could be maintained without a set-back to the railways' budgetary position only so long as economies of scale accrued year by year with developing traffic. As suppliers of a service like transport, railways are specially sensitive to a recession in the economy. Just now they are at a stage—which I hoped will be short-lived,—when the sluggishness of the economy has led to a temporary stagnancy in the growth of traffic. Unfortunately, at the same time the burden of dearness allowance, of annual scale increments, of dividend and of prices of fuel, iron and steel, and stores etc. continues to increase. This is, in short, the cause of the railway deficit last year and this year and not any weakness in the railways' financial structure.

It may not be inappropriate in this context to refer to the substantial social burden which the Indian Railways carry. Fares charged for commuter traffic on suburban services are extremely low—monthly season tickets for certain distances are charged as low as the cost of seven single journeys at ordinary fares. Large concessions in fares are given to students. There is the sharp taper built into the telescopic scales for long distance movement of essential commodities like coal. Thirdly, the railways have been charging low rates on a number of commodities as a measure of export promotion. Fourthly, the rates charged for the movement of fertilisers and the raw materials for their manufacture have been kept very low, as also the rates for the movement of foodgrains. The railways have been carrying free of charge foodgrains, fodder, clothing, blankets, milk powder, medicines and salt to areas affected by natural calamities like drought, famine, floods,

cyclones. The amount of these concessions and subsidies on goods traffic alone is conservatively estimated at about Rs 6 crores per year. It is difficult to estimate the amount of the concessions on passenger fares, but it will not be an insignificant amount. In some countries it is recognised that such social burdens are to be borne by general exchequer and not by the railways. The Indian Railways can afford to bear these burdens in normal years but in times like the present they do constitute a severe strain.

I now come to the outlook for the year 1968-69. With the prospect of a good agricultural year, an increase of 3½ per cent is expected in passenger traffic and passenger earnings have been estimated at Rs 268 crores. Other coaching traffic is not likely to be higher than in the current year. On a careful survey of the prospects of goods traffic for the next year it is estimated that there should be an increase of six to seven million tonnes of originating traffic. The estimate of goods earnings is about Rs 21 crores higher than in the current year. With an increase of Rs 2 crores under sundry earnings and a provision of rupees one crore more for unrealised earnings, gross traffic receipts would amount to Rs 864.5 crores.

Ordinary working expenses are estimated at Rs 614 crores—an increase of Rs 24.27 crores over the revised estimates for the current year. This includes a provision of about Rs 5 crores for annual increments; about Rs 6½ crores more for dearness allowance for a full year at the rates which have been effective for only five months this year; a provision of Rs 3½ crores more for coal, diesel oil and electricity at higher rates that the railways have had to pay for part of the current year; of Rs 2 crores for fuel for carrying the estimated additional traffic; an increase of Rs 4 crores under 'repairs and maintenance', most of which is for overhaul of carriages and wagons; and some other minor increases needed for the additional traffic and assets newly brought into use.

Appropriation from revenue to the depreciation reserve fund is proposed at Rs 100 crores and to the pension fund at about Rs 10 crores. The provision for open line works—revenue has been reduced to Rs 9 crores as against the revised estimate of Rs 10.25 crores this year and net miscellaneous expenditure will consequently be about Rs 84 lakhs less. The dividend is expected to be Rs 11 crores more than in the current year.

These figures work up finally to a net deficit of Rs 27 crores.

Pressing for Economies

As I have already said, I shall continue to press the railway administrations to achieve further economies in all directions. The ban on the recruitment of staff to administrative offices will continue and recruitment of additional staff will be permitted only to the extent absolutely necessary for moving the traffic and for operating and maintaining sections of line and yards newly opened to traffic and other new assets brought into use during the year. Efforts for the conservation of fuel and other stores will be intensified and so also for reducing loss and damage to goods.

The railways will make an all out effort to look for and nurse traffic in the coming years so that more traffic is secured and further diversion of high rated traffic to other means of transport may be prevented and wherever possible even lost traffic won back to the railways. In pursuance of the railways' policy to provide an increasingly customer-oriented service, the setting up of a marketing & sales organisation in each zonal railway in recent months, will I am hoping, turn out to be fruitful. These organisations are manned by specially selected officers and charged with the responsibility of conducting market research, keeping in touch with trade and industry, ascertaining and meeting their requirements and spearheading improvements in the railways' service to their customers. Initial results have been quite promising. A branch of this organisation is looking after the development of container services, which combine the advantages of rail and

road transport by providing an integrated service all the way from the consignor's premises to those of the consignee, the railway looking after both the road and the rail portion of the transport. The consignor loads and locks the container and it is only opened by the consignee on receipt at his end. The first container service on Indian Railways was introduced in February 1966 between Bombay (Carnac Bunder) and Ahmedabad (Asarva) with containers of 4½ tonne payload hauled by tractors one at a time to the rail head and loaded four to a 4-wheeler flat truck. In December 1967 a container service was introduced between Carnac Bunder and New Delhi with road units capable of taking two containers at a time. In November 1967 yet another type of container which can be folded when not in use was introduced in service between Gwalior and New Delhi. The Railways' Research, Designs and Standards Organisation at Lucknow has evolved an improved type of container capable of carrying a payload of five tonnes which can be used both on broad gauge and metre gauge. Plans have been worked out for introducing container services between important cities in the country. The service is proving to be popular and it is hoped that, in course of time, the Indian Railways will catch up with advanced countries in extending the full benefits of containerised transport to their customers.

Super Express Trains

Super express goods trains have been running on trunk routes for the last two years. Some of these trains are now hauled by diesel locomotives and there has been a substantial reduction in running time. For example, the run from Carnac Bridge to New Delhi has been reduced from 95 hours to about 50 hours and that from Wadi Bunder to Shalimar from 94 hours to 73 hours. In addition, a fast diesel express goods train named 'Freight Chief I' has been introduced on the central railway which covers the distance of 746 kilometres from Wadi Bunder to Itarsi in about 17 hours and has greatly reduced transit time between Bombay and areas served via Itarsi such as Kanpur, Allahabad, Banaras and areas beyond.

I have to revert to a subject I had touched upon while introducing the last railway budget in Parliament in May last year, that of the heavy losses, amounting at a conservative estimate to about six crores a year, being incurred by the railways in operating several unremunerative branch lines. Since then detailed investigations have been made of the transport position in the areas served by several of these branch lines and I have also been able to give more detailed and careful consideration to this matter. With rising costs and little likelihood of traffic on these branch lines developing any further, the loss on operating them will progressively increase. The railways having run into a deficit in the last year and the current year, and the estimates of 1968-69 also showing a sizable deficit, as I have mentioned a little while ago, every possible measure has to be adopted for eliminating avoidable loss. I am, therefore, obliged to pursue very seriously the question of closing down unremunerative branch lines as speedily as possible. The utmost care will, of course, be exercised to make a most judicious selection of the branch lines for closure. We shall select for closure only those lines which are operating at a much greater cost to the economy than would be the cost of carrying the same meagre traffic by road transport. Being fully aware of the popular local sentiment that generally asserts itself against proposals for closing down railway lines, however economically justified this may be, I have to appeal to this House, as I already have to the chief ministers of states, to give me its fullest support in implementing a proposal which is based on the sound principle of providing transport at the lowest cost and to the maximum advantage of the economy. This will enable me at the same time to achieve the important objective of cutting out a sizable loss to the railways in their hour of need. I have also told the state governments concerned of my readiness to consider any requests from them for financial assistance for improving or developing the road transport services that may

also makes a great deal of difference, particularly because it makes the coaches dust-proof. Entry into the coach is regulated by advance reservation and overcrowding is ruled out. Tea or coffee is served to the passengers in their seats. Altogether, the standard of comfort provided is higher than ordinary day-time services provided even in advanced countries. It has also to be borne in mind, that the air-conditioned chair cars run on very fast trains.

The cost of building and maintaining an air-conditioned chair car is much more than that of the ordinary coach. Operating costs are also higher. Besides, the coach is manned by travelling ticket examiners round the clock to ensure that the accommodation he has reserved is available to the passenger.

There is thus ample justification for the charges being increased to the level of second class mail/express fares. This increase will amount to only 10 per cent or less on the present fare for distances of 100 kms and above, vide statement below:

Distance (Kms.)	Third Present		Total	Second	Proportion between cols.(5) and (4).
	Class Mail/	ACC	present	Class	
	Express Fare	Third Class surcharge	Third Class ACC charge	Mail/ Express charge	
1	2	3	4	5	6
50	1.65	1.00	2.65	3.00	113
100	3.20	1.90	5.10	5.60	110
200	6.40	3.80	10.20	11.15	109
500	15.60	9.50	25.10	27.45	109
1000	27.55	18.40	45.95	50.70	110
1500	37.95	26.45	64.40	70.85	110
2000	47.20	34.45	81.65	88.30	108
2500	56.45	42.50	98.95	105.80	107

Surcharge for sleeper accommodation—Passengers travelling by two-tier sleeper coaches and passengers travelling in three-tier sleeper coaches with tickets for less than 800 kilometres now pay a surcharge of Rs 3.50 per night. A passenger travelling by a three-tier sleeper coach holding a ticket for over 800 kilometres, however, does not pay anything extra over the normal fare for the sleeping accommodation. It is obviously anomalous that passengers who are provided with sleeping accommodation and those who are not should both pay the same fare. The distinction drawn on the basis of the distance for which the ticket is issued instead of whether sleeping accommodation is provided for a night journey is also not logical in the prevailing circumstances. A large number of passengers who hold tickets for distances of over 800 kms cannot be accommodated in the sleeper coaches and there is a scramble for sleeper berths.

Moreover, a third class sleeper coach costs more to build and more to operate than an ordinary third class coach; travelling ticket examiners are manning it all the time in eight hour shifts.

In view of all these considerations, it is proposed to levy a surcharge for sleeping accommodation irrespective of the distance for which a ticket is held or the distance for which the passenger actually travels by the sleeper coach.

It is also proposed that the rate of surcharge should be Rs 4 per night for both three-tier and two-tier coaches. While the two-tier coach offers a foam mattress, it also suffers from certain disadvantages: the passenger has invariably to climb to the upper berth and is also liable to have his sleep disturbed by the entry and exit during the night of passengers who use the seating capacity of the coach; the standard of comfort is thus not substantially higher than in the three-tier sleeper coach. It is proposed to put up the surcharge for second class sleeper coach from Rs 5 to Rs 6 per night.

It may be mentioned in this context that in most countries the additional charge for reserving sleeping accommodation is

very much more than the normal charge or fare for sitting accommodation.

Season tickets—The charge for season tickets will also be slightly increased. The charge for monthly season tickets is proposed to be put up by 25 paise in the case of the third class and one rupee in the case of the first class. This would apply equally to suburban and non-suburban areas. The charge for monthly second class season tickets (which are issued only in non-suburban areas) is to be increased by 40 paise. Assuming twenty-five working days in a month and two journeys, one outward and one back per day, the cost of a third class monthly season ticket per journey will go up by only half a paise. Charges for quarterly season tickets will be increased to three times that on the monthly season tickets.

PLATFORM TICKETS

Since, with the proposed revision in passenger fares, the minimum charge for a journey ticket would be 20 paise, the charge for platform ticket is to be raised up to 20 paise.

FREIGHT RATES FOR PARCELS AND LUGGAGE

Freight charges for parcels and luggage are at present subject to 10 per cent supplementary charge. This is proposed to be raised to 20 per cent. As at present, milk, newspapers and vegetables will be exempt from the supplementary charge.

When from April 1, 1965, the basic rate for fresh fruits was put up to half parcel rates, it was decided that except when they moved in wagon loads and were charged at much lower station-to-station rates, they would be exempt from the supplementary charges then in force. It is now proposed to levy the full supplementary charge on fresh fruits as well.

GOODS

The supplementary charge on goods traffic is to be put up from six per cent to nine per cent, subject to the same exceptions as at present.

When the supplementary charge was increased from three per cent to six per cent from June 15, 1967, foodgrains were exempted from the increase. From April 1, 1968, foodgrains will be subject to supplementary charge at six per cent instead of nine per cent as in the case of most other commodities.

RAILWAY BUDGET AT A GLANCE

	Rs crores			
	Actuals 1966-67	Budget Estimates 1967-63	Revised Estimates 1967-68	Budget Estimate 1968-69
Gross Traffic Receipts.	768.78	847.00	829.55	864.50 +28.00*
Ordinary Revenue				
Working Expenses (Net) i.e., after taking credit for recoveries.	525.61	567.21	589.74	614.01
Appropriation to Depreciation Reserve Fund from Revenue.	100.00	105.00	95.00	100.00
Appropriation to Pension Fund.	13.60	15.05	10.00	10.00
Net Miscellaneous Expenditure (including cost of Works charged to Revenue)	15.45	16.90	16.32	15.49
Total:	654.66	704.16	711.06	739.50
Net Railway Revenue	114.12	142.84	118.49	153.00
Dividend to General Revenues.	132.39	141.56	141.08	152.00
Net Surplus (+)/ Deficit (—)	(—)18.27	(+)1.28	(—)22.59	(+)1.00

* Effect of budget proposals for 1968-69.

Motor Car Quality Committee Report

THE GOVERNMENT has accepted the recommendations made by the Motor Car Quality Inquiry Committee which was headed by Mr G. Pande. These include adoption by the manufacturers of modern quality control methods, stricter inspection of raw materials and components, rigorous pre-delivery inspection of cars, extension and adoption of uniform warranty procedures and an increase in the application of Indian Standards Institution standards to raw materials and components. The report calls for an early establishment of the research and development organisation by the industry and recommends, in the meantime, the use by the car manufacturers, of the existing testing facilities available with the Ministry of Defence. To make sure that the manufacturers comply with the recommendations, technical audit cells are to be set up in various plants. Details of a scheme for the purpose are being worked out. The report suggests that the government should stop assistance to producers whose products are found consistently sub-standard.

The government's decision has been announced in a resolution which is reproduced below:

In view of the widespread complaints about the quality of motor cars manufactured in India, the government had, in exercise of the powers conferred by Section 15 of the Industries (Development & Regulation) Act, 1951, appointed, in its resolution dated July 11, 1967, a committee under the chairmanship of Mr G. Pande to investigate and make recommendations in regard to the following:—

- The extent of deterioration in the quality of motor cars, the circumstances and reasons therefor;
- Whether minimum standards of quality and performance have been laid down and ensured by the car makers for the raw materials, components, and sub-assemblies, bought out or manufactured by them, and for the assembled cars;
- Whether the equipment, facilities, and arrangements with them are adequate and effectively used for proper testing and inspection, and what are the additional requirements in respect of the same to ensure better inspection and quality control;
- The part played by the indigenous, ancillary and other industries in this deterioration and the steps to be taken for effecting improvements therein;
- The nature of effectiveness of the warranties and the adequacy and promptness of the after-sales service rendered by the dealers and others concerned; and, finally,
- The necessary and feasible steps to be taken by the central government in regard to these matters.

The committee submitted its report on December 1, 1967. It is a very comprehensive study of the working of the industry relating to the manufacture of motor cars and its ancillary industries and has drawn attention to the reasons for the deterioration in the quality of cars manufactured in the country, the inadequacies in the quality control procedures of car and ancillary producers, the lack of proper organisation, inadequacies of technical know-how, equipment and testing facilities and difficulties in obtaining the right type and quantities of raw materials etc. The committee has also made recommendations for the rectification of various defects and

improvement of the quality of motor cars produced in the country.

The implementation of the recommendations would require concerted and detailed action by the industry, government and dealers over a period of time. In order to ensure that the necessary improvements are effected speedily, government intends to arrange for periodical review of the steps taken to implement the recommendations.

A summary of the various recommendations and government's decisions thereon is given below.

RECOMMENDATIONS & GOVERNMENT'S DECISION

Concerning Car Makers

Recommendations:

- The management should become fully quality conscious and instill this consciousness at all levels of their staff and workers, through periodical lectures, demonstrations, circulation of pamphlets, awards, and incentives.
- The managerial staff should be given training in one of the organized institutes on modern management techniques.
- Training courses in inspection and quality control techniques for the staff posted in these departments should be organised along with periodical refresher courses.
- A separate inspection department manned by well qualified personnel should be established in each plant and should be directly responsible to the top management.
- There should be a separate quality control department manned by proper qualified personnel.
- Every plant should have a company standards department to liaise with the Indian Standards Institution and also to lay down required company standards.
- Proper inspection and statistical sampling procedures and statistical quality control methods should be evolved for adoption in the three plants.
- Statistical control methods should be employed from the inspection of the incoming raw materials and components, through the assembly lines and right upto the finished products.

Government's decision:

Accepted. The industry will be asked to have discussions among themselves and put forward a common programme for implementing the recommendations with a definite time schedule.

Recommendation:

- Indian Standards for raw materials, components, statistical quality control methods and test procedures should be followed wherever they exist. Raw materials and components carrying the ISI Certification Mark should be purchased wherever they are available.

Government's decision:

Accepted. The industry will be directed to obtain specifications, standards and test procedures established for this purpose from the Indian Standards Institution and to purchase materials covered by the ISI Certification Mark.

Recommendations:

- Every plant should have adequate testing facilities for raw materials and components.
- Test rigs for testing of performance requirements of components and for evaluating the life of the bought-out components should be installed. Samples of bought-out components should also be continuously tested on test cars and test tracks. Adequate number of test cars should be earmarked for this purpose.

Government's decision:

Accepted. The car makers will be directed to approach government for any assistance needed for import of equipment etc., and to indicate the test rigs already with them and what additions they propose to make either individually or jointly

within a period of six months.

Recommendations :

12. The layout of some of the departments of the car makers should be revised whenever an opportunity arises to enable smooth flow of materials and components and to avoid duplicate handling.

13. A research and development section should be established at each of the plants for redesigning components, developing new designs and analysing defects with a view to taking corrective measures.

Government's decision :

Accepted. The manufacturers will be directed to implement the recommendations and confirm compliance.

Recommendation :

14. The spare equipment capacity available should be allowed to be utilized by other plants/ancillary producers.

Government's decision :

The manufacturers will be asked to consider this point, even in their own interests, to ensure maximum utilisation of the equipment.

Recommendation :

15. Detailed and specific requirements of standards should be furnished to the ancillary producers in addition to making available to them the testing facilities at the car maker's plant.

Government's decision :

Accepted. Manufacturers will be directed accordingly.

Recommendation :

16. Proper and uniform purchase and payment policies and contractual agreements should be laid down between the car maker, the ancillary producer and their suppliers, on a long-term basis. Necessary provisions for penalties and compensation for non-compliance should be introduced in these agreements to ensure consistency.

Government's decision :

Accepted. The industry will be directed to discuss with the Association of Ancillary Manufacturers and the Development Commissioner, Small Scale Industries and evolve a uniform purchase policy within six months.

Recommendation :

17. All materials should be accepted only after proper inspection and testing, and not on the basis of previous supplies or brand names.

Government's decision :

Accepted. The industry will be directed to lay down a detailed code of inspection and testing in consultation with the suppliers. The code should be strictly adhered to thereafter.

Recommendation :

18. A thorough pre-delivery inspection of all cars should be made by the car maker before delivery to the dealer.

Government's decision :

Accepted. The manufacturers and dealers will be asked to lay down a full pre-delivery inspection procedure and report compliance. A case history of the car should be maintained.

Recommendation :

19. No car with deficient supplies of parts should be sold to the dealer. Cars should have the stipulated service tools of proper quality.

Government's decision :

Accepted. Manufacturers will also be directed to specify the accessories and tools to be supplied with each car.

Recommendations :

20. Tamper proof speed governors should be fitted to the cars to minimise reckless driving of the cars from the car maker's plant to the dealer's establishment.

21. Proper procedures for preventive maintenance and timely repair of machinery and equipment should be laid down.

Government's decision :

Accepted. The industry will be advised accordingly.

Recommendation :

22. A proper system of collection of field data with regard to the performance of passenger cars should be evolved so that information regarding complaints, defects and failures is fed back to the car maker with a view to analysing their causes and also for taking corrective measures.

Government's decision :

Accepted. The manufacturers will be requested to discuss among themselves and their respective dealers and evolve a uniform practice of reporting performance data.

Recommendation :

23. The warranty with which cars are sold should be uniformly valid for a period of 12 months or a distance covered or 16,000 Kms whichever occurs earlier. Also, all defects due to faulty manufacture or bad workmanship should be rectified and defective parts replaced during this period without passing any part of the burden, including incidental charges, to the customer.

Government's decision :

Accepted. The manufacturers will be directed to comply with the recommendation.

Recommendation :

24. Car makers should evolve a proper procedure for disposal of rejected material and parts so as to ensure that they do not find their way back to their plants.

Government's decision :

Accepted. The manufacturers will be asked to evolve a proper procedure within six months and inform government of the steps taken.

Recommendation :

25. The car makers, together with the ancillary producers, should try and develop as many interchangeable components as possible for the three cars in order to increase productivity, reduce cost and improve quality.

Government's decision :

Accepted. The manufacturers will be asked to take immediate steps in consultation with ancillary manufacturers.

Recommendation :

26. The dealer's workshops should be visited periodically by the car maker to ensure that the spare parts that go into the original equipment are being stocked, for use during the warranty period.

Government's decision :

Accepted. The manufacturers will be directed to take immediate action and report compliance.

Recommendation :

27. When defects in critical components are reported from the field, the owners of all cars from that batch should be notified so that the cars are brought immediately to the nearest dealer's service station for check and rectification of defects.

Government's decision :

Accepted. The industry will be directed to comply strictly with this recommendation.

Recommendation :

28. The car makers may be induced to give up the production of certain components which they are currently manufacturing, which could more profitably be manufactured by the ancillary producers.

Government's decision :

Accepted. The manufacturers will be advised accordingly.

Concerning Ancillary Industries

Recommendations :

1. The management should become fully quality conscious and instill this consciousness at all levels of their staff and workers, through periodical lectures, demonstrations, circulation of pamphlets, awards and incentives.

2. The managerial staff should be given training in one of the organised institutes on modern management techniques.

3. Training courses in inspection and quality control

techniques for the staff posted in these departments should be organised along with periodical refresher courses.

4. A separate inspection department manned by well qualified personnel should be established in each unit and should be directly responsible to the top management.

5. There should be a separate quality control department manned by proper qualified personnel.

6. Each unit should have a company standards department to liaise with the Indian Standards Institution and also to lay down required company standards.

7. Proper inspection and statistical sampling procedures and statistical quality control methods should be evolved for adoption in each unit.

8. Statistical quality control methods should be employed from the inspection of the incoming raw material and sub-components through the assembly lines and right upto the finished products.

Government's decision :

Accepted. The All India Automobile and Ancillary Industries Association will be requested to evolve a uniform practice after discussions among the individual ancillary units and formulate a plan of action within six months.

Recommendation :

9. Indian Standards for raw materials and sub-components, statistical quality control methods and test procedures should be followed wherever they exist. Raw materials and sub-components carrying the ISI Certification Mark should be purchased wherever they are available.

Government's decision :

Accepted. The All India Automobile and Ancillary Industries Association will be requested to take up the matter with the Indian Standards Institution for obtaining ISI Standards that have been evolved either for specification or for raw materials or test procedures and existing ISI Marking practice already introduced.

Recommendation :

10. Each unit should have adequate testing facilities for all raw materials and components. Alternatively, where possible, a group of ancillary units should establish testing facilities for use by all of them.

Government's decision :

Accepted. The individual ancillary units will be directed to take stock of the test facilities available with them for raw materials and make out a list of additional facilities they propose to establish. This should be further discussed at the Association level so that duplication of facilities could be avoided as far as possible.

Recommendation :

11. Test rigs for testing of performance requirements and evaluating the life of the components should be installed.

Government's decision :

Accepted. The ancillary producers will be directed to take action accordingly.

Recommendation :

12. A research & development section should be established at each unit for redesigning components, developing new designs and analysing defects with a view to taking corrective measures.

Government's decision :

Accepted. The ancillary producers will be asked to implement the recommendation and report the action taken.

Recommendation :

13. Proper and uniform purchase and payment policies and contractual agreements should be laid down between the ancillary industry and their suppliers.

Government's decision :

Accepted. The manufacturers will be requested to consider the matter at the level of All India Automobile & Ancillary Industries Association and evolve a uniform purchase and payment policy and a standard contractual agreement between the ancillary units and their suppliers. Similar policy should be applicable for the purchase from units in the small scale for which the association should conduct discussions with the Development Commissioner, Small Scale Industries.

Recommendation :

14. All material should be accepted after proper inspection and testing and not on the basis of previous supplies or brand names.

Government's decision :

Accepted. The manufacturers will be requested to take action accordingly.

Recommendation :

15. A proper system of collection of field data with regard to the performance of their components should be evolved so that information regarding complaints, defects and failures are fed back to the producer with a view to analysing their causes and also for taking corrective measures.

Government's decision :

Accepted. The manufacturers will be requested to discuss among themselves and evolve a uniform practice of reporting performance data.

Recommendation :

16. The ancillary producers, together with the car makers, should try and develop as many interchangeable components as possible for the three cars in order to increase productivity, reduce cost and improve quality.

Government's decision :

Accepted. The ancillary producers will be directed to take up the matter at the association level to evolve a provisional list of components that could be made interchangeable among the three makes of cars.

Recommendation :

17. Proper procedures for preventive maintenance and timely repair of machinery and equipment should be laid down.

Government's decision :

Accepted. The ancillary producers will be directed to take action accordingly.

Recommendation :

18. The All-India Automobile and Ancillary Industries Association should devise ways and means to make its constituents observe the code of conduct evolved by it under pain of being disaffiliated under public notification if there is a breach of it by any producer.

Government's decision :

Accepted. The association will be addressed accordingly.

Concerning Dealers

Recommendations :

1. Every dealer should have proper equipment and adequate facilities for servicing and repair of the cars as recommended by the car maker.

2. A dealer should have adequate stock of such parts as are used in the original equipment and should use no others for replacement of defective parts during the warranty period.

3. The pre-delivery inspection should be thoroughly done and all defects rectified before delivering a car to the customer.

Government's decision :

Accepted. Each car maker will be directed to evolve the standard procedures for their dealers and to introduce the procedure within six months.

Recommendation :

4. The dealer should make available a list of charges for standard jobs to the user.

Government's decision :

Accepted. All the dealers will be advised through the respective car makers to comply with the recommendation.

Recommendations :

5. The dealer should ensure that the cars transported by road do not exceed the speed limits specified by the car maker to minimise defects arising during their transportation.

6. The dealer should be given full authority to settle complaints regarding defective parts irrespective of the agreement that the car maker might have obtained/entered into with the concerned ancillary suppliers and thus ensure that complaints are attended to promptly without the customer having to wait for long period.

7. The dealer should maintain proper record of complaints received from car users and the action taken.

Government's decision :

Accepted. Each of the car makers will be directed to evolve standard procedures in these respects and to direct their dealers to introduce them within six months.

Concerning the Government**Recommendation :**

1. The Indian Standards Institution should be requested to formulate on priority basis, standards for raw materials and components with the assistance of the car makers, ancillary producers and their suppliers.

Government's decision :

Accepted. The Indian Standards Institution will be requested to initiate action for drawing up standards according to priorities to be assigned to various items. The representatives of producers will also be associated with this work. Efforts should be made to complete the work relating to priority items within 12 months.

Recommendation :

2. The car makers should be directed to adopt and implement Indian Standards as and when these are formulated.

Government's decision :

Accepted. The industry will be directed to adopt such standards as and when formulated.

Recommendation :

3. ISI Certification Marks Schemes should be made compulsory for all the ancillary producers on the basis of priorities to be established.

Government's decision :

The Indian Standards Institution will be requested to prepare a list of priority items in consultation with the ancillary producers and in respect of these items ISI marking scheme might be made compulsory.

Recommendation :

4. The public sector steel plants should be directed to make available raw materials of the qualities required by the industry, irrespective of the quantities involved.

Government's decision :

Accepted. The Department of Iron & Steel will be requested to take appropriate steps after a list of requirements and quantities in each category is drawn up by the associations concerned.

Recommendation :

5. The fabrication of special two-tier bogie wagons for transporting multiple cars by rail should be expedited.

Government's decision :

Accepted. The Ministry of Railways will be requested to take appropriate steps.

Recommendation :

6. The government should stop assistance to the ancillary producers whose products are found consistently sub-standard and take other corrective action. They should also not be permitted renewal of their foreign collaboration, if any.

Government's decision :

Accepted.

Recommendation :

7. All the three car makers should be directed to sell cars under a warranty which should be uniformly valid for a period of 12 months or a distance covered of 16,000 kilometres, whichever occurs earlier. Also, all defects due to manufacture or workmanship should be rectified and defective parts replaced during this period without passing any part of the burden including incidental charges, to the customer.

Government's decision :

Accepted. The manufacturers will be directed to take action accordingly.

Recommendation :

8. In order to ensure that the car makers and the ancillary producers adopt the relevant recommendations enumerated above, technical audit cells should be set up in the car makers plants and also in the ancillary producers units, individually or collectively, as considered necessary, with a view to arresting the deterioration of quality and giving trouble-free service to the customers.

Government's decision :

Accepted in principle. A detailed scheme for establishment of an organisation will be prepared for further action.

Recommendation :

9. Foreign exchange should be made available for purchasing such raw materials/components of the required quality as are not available at present in the country and the industry should be assisted in getting their men trained in overseas countries.

Government's decision :

Accepted.

Recommendation :

10. The government may also consider permitting the car makers to manufacture 'de-luxe model' without price and distribution control, to provide necessary incentive for technological development and also for improving the quality of the cars which are now being manufactured.

Government's decision :

This recommendation will be examined after all the other recommendations are implemented.

Recommendation :

11. The government should assist in the early setting up of the co-operative research and development organisation for the automobile industry which has already been agreed in principle. Till such time as this organisation is set up, the facilities for testing cars available with the Ministry of Defence should be utilised by the car makers.

Government's decision :

Accepted. The Indian Automobile Manufacturers' Association will be asked to expedite the establishment of the research organisation and steps will be taken to ensure that definite progress is made within six months. The car makers will also be directed to utilise the testing facilities available with the Ministry of Defence.

Recommendation :

12. The government may also consider giving a rebate on the taxes to the car makers and the ancillary producers in proportion to the expenditure on inspection and quality control.

Government's decision :

This recommendation will be examined in consultation with the Ministry of Finance.

Recommendation :

13. The government should consider imposing stricter driving tests before driving licences are granted.

Government's decision :

Accepted.

Miscellaneous**Recommendation :**

1. Registration for purchase of a car should be made with the regional representative of the car manufacturers and customers should stipulate the dealer through whom the car will be accepted.

Government's decision :

Accepted.

Recommendation :

2. Proper conditions of working, adequate amenities, awards and incentives should be provided to the workers so that quality consciousness could be instilled in them.

Government's decision :

Accepted. The manufacturers will be advised accordingly.

Recommendation :

3. The quality of paints should be improved. Suitable rubber components should be developed to withstand severe atmospheric conditions obtaining in the country. The manufacture of plate glass should be expedited and till then strict inspection and control methods should be adopted.

Government's decision :

Accepted. Appropriate steps will be taken to improve the quality of paints and rubber components and where necessary, imports also will be allowed to the required extent. Even now plate glass for windscreens are being imported pending development of indigenous industry.

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EASTERN ECONOMIST

MARCH 8, 1968

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An Everyman's Budget

IT WAS a relaxed, and almost jovial, Mr Morarji Desai who presented the central budget in Parliament yesterday, so much so even the contrived bits and pieces of wit and humour with which he sought to intersperse his budget speech succeeded in sounding spontaneous. The Deputy Prime Minister and Finance Minister was evidently speaking with an inner conviction of sweet reasonableness. Perhaps he was justified, for, at least in a limited sense, this certainly is an Everyman's budget. There is in it something of everything, which means that it has a little here or a little there for practically all. Mr Desai has reassured the expansionists by stepping up the Plan outlay at least slightly over the current year's level and the deflationists by leaving the large deficit in the budget uncovered. To the stock exchanges and the capital market has been extended a series of goodwill gestures, large or small, such as the abolition of the tax on excess dividends, the reduction in the surtax on companies, the removal of the surcharge on unearned incomes and a minor extension of the existing tax exemption of returns from equity investments.

Simultaneously, Mr Desai has thrown a sop to Cerberus on the Left by moving up the basic rates of income-tax on incomes over Rs 1 lakh and also the rates of ordinary wealth tax in the slabs over Rs 10 lakhs. The Finance Minister has soothed the security-conscious among us by making generous provision for Defence, the agriculture-oriented with concessions for various activities connected with the new agricultural strategy of stepping up inputs, such as fertilizers and better seeds and promoting the use of pesticides, and the export-minded with a miscellany of inducements. He has earned the gratitude of the middle layers of income-tax assesses by abolishing the annuity deposit scheme, pleased the self-employed by extending to them the tax benefits of a voluntary provident fund scheme and has courted the goodwill of the common man by confining his new excise tax proposals to goods which either do not enter into mass consumption, such as confectionery or refrigerators and air-conditioners, or articles the use of which could be discouraged on sound grounds of public health or welfare, such as tobacco and alcohol. Even the appreciable increases in postal rates all round may appeal to those who are concerned with the importance of government enterprises paying their way and earning a return on capital invested. The Finance Minister has thus been at pains to please everybody, and for the moment, at any rate, there is no indication that he will have to reckon with the fate supposed to be reserved for those who are rash or unwise enough to attempt this versatile effort.

There is, however, still this question to be answered: Has Mr Morarji Desai also aimed at or achieved anything more substantial or worthwhile than a moderately popular budget? It is obvious that he has not been without proper ambitions. In an economic context, where a number of capital goods industries and some consumer goods industries have receded into a state of halted or shortened production, Mr Desai has decided to maintain government investment at a high level through an increased provision for the Plan and has avoided a scaling down of total government spending to tax-cum-loan supported levels by leaving in the budget, on its revenue and capital accounts taken together, a gap of Rs 290 crores to be bridged by deficit financing. Quite clearly, the Finance Minister is taking a calculated risk here. He obviously has great faith in the soporific effect which the improvement in agricultural production may have on the price level. He is apparently equally optimistic about the contribution which the government's development outlays or

other spending may make to creating demand and thereby stimulating production in the recessionary areas of the industrial sector. It is possible, however, that Mr Desai may be underestimating the depth of the recession in industry as well as the strength of the inflationary potential. Of the latter, the official Economic Survey, it is necessary to remind the Finance Minister, itself has spoken with a degree of caution which cannot be easily reconciled with the extent of deficit financing which the budget contemplates.

The Survey points out: "The outlook for prices is governed by the improved agricultural supplies. But there are possibilities of cost increases during the next year. And with the large increase in money incomes, especially in the agricultural sector, the pressure of demand will also be up. Not all the increased demand will be directed automatically to those sectors of the economy where there is excess productive capacity. There is, therefore, need for continued vigilance over the price situation." In view of these words of caution

This is a script written by the Editor for an AIR broadcast on Friday, March 1. It is published here by courtesy AIR.

uttered officially in advance of the budget, it would have been greatly appreciated had Mr Desai been able to spell out in his budget speech such bold new ideas as the government may have for reconciling the needs of stability with the demands of development. He has, however, observed an almost total reticence on this point. This justifies an apprehension that the government, in fact, has no new ideas for assisting the economy to digest the large fare of deficit financing set before it.

If this is so, the government may be under constant temptation to counteract the adverse effects of its fiscal laxity with a Draconian discipline in its monetary policy. Should this result in a reversal of the liberalisation, recently initiated, of the Reserve Bank's procedures of credit control, an unwise blow would have been dealt to such incipient trends as there may be of a revival of industrial capacity or production. And yet the largest possible rise in industrial production in the shortest possible time is the only answer to the "how" of economic breakthrough. Without this thrust in industrial production, the increased agricultural output alone will not be able to stem the erosive risks of inflationary possibilities. To appeal to the Economic Survey, again, the threat to the price level is to be expected in the months ahead from the cost-push influences in the manufacturing sector. The budget seems to make light of this peril by contemplating a large deficit with what appears to be a feeling of unjustified equanimity.

In the current financial year, Mr Desai's original attempt to avoid deficit financing has failed and the deficit for the year ending March 31, 1968, is now estimated at about Rs 300 crores. The Economic Survey blames this on the shortfalls in foreign aid, surpluses

of public sector enterprises and budgetary receipts, especially from import duties and also from direct taxes, thanks, in both cases, to the recession in industrial activity. It is also mentioned that the deterioration in the budgetary position of the states resulted in further inroads being made into the centre's resources. In the budget year ahead, Mr Desai proposes to start with a budgetary deficit about as large as that with which the current year has closed—and there is no knowing where he will end up. It would certainly be too optimistic to hope that the government could master in the months ahead all the forces which have been playing havoc with its budgetary calculations in the current year. In fact, even the estimated budgetary gap for 1968-69 is a sum arrived at after the government's revenue estimates have taken credit for possible gains from an anticipated five per cent improvement in industrial production. Mr Desai clearly is giving too many hostages to fortune.

There is bound to be, therefore, some anxious questioning after the immediate reaction of general relief at there being no new heavy additional taxation has petered out. For, the closer and longer the budget is studied, the stronger will the doubts grow about the possibility of its even paving the way for the kind of economic miracle which our country needs to rescue it from its current state of stagnation. In particular, the budget really has little to offer by way of a stimulus for capital, whether for investment or production. The abolition of the excess dividend tax or the reduction of the surtax on companies can only be of notional benefit at the present time when industry in general is squeezed by low profitability. Incidentally, Mr Desai says that he has reduced the surtax on companies in the hope that this would act as "a spur to efficiency". In other words, he concedes that this tax is a penalty on efficiency. Why then keep it at all? Could it be that we have too much efficiency in any sector of our industry? The increases in the rates of income-tax on top flights of incomes and the higher rates of wealth tax may be thought to affect only the few who are over-blessed with the riches of this world, but experience has shown that tax levies of this kind have a disproportionate effect in depressing business psychology and, certainly, investor activity in the capital market. These circumstances, taken with the fact that Mr Desai has done nothing to mitigate the parlous condition of major industries, such as cotton textiles, suggest that the government in its wisdom has decided to wait on an economic revival rather than work for it.

EASTERN ECONOMIST BUDGET NUMBER

The next issue of 'Eastern Economist' dated March 15, 1968, will be the special Budget Number devoted to a detailed and critical analysis of the budget proposals and documents. It will include, as a special feature, a report on the progress and the present state of UNCTAD-II.

The special number will reproduce the main budget papers and will be amply illustrated with graphs and statistics. Priced at Rs 5 per copy, it will be available to regular subscribers without extra payment.

Gateway to Recovery

THE SPEECHES made at the annual general meetings in Bombay of two of the oldest and premier commercial bodies in the country—the Indian Merchants' Chamber and the Bombay Chamber of Commerce and Industry—were notable as much for their candour as for their comprehensiveness. A common thread running through all the speeches, it is noteworthy, was the sigh of relief that, at least after two successive lean years, nature had relented and the country had a good monsoon to assure the people of a bumper harvest. According to the latest Economic Survey this is estimated to lead to a 20 per cent rise in agricultural production and a 10.8 per cent increase in national income. But relief on this score was more than offset by the concern occasioned by the continuing recession alongside inflation.

Recession, as the FICCI President Mr L. N. Birla told the seminar on "Recession and Export Promotion", organised in Bombay again, by the Association of Merchants and Manufacturers of Textile Stores and Machinery, on February 24, 1968, "denotes growing imbalance between production and demand resulting in under-utilisation of capacity and accumulation of stocks." How has this come about? It is the cumulative result of several factors—inflation due to excessive increase in money supply, devaluation of the rupee and over-licensing of industrial capacity—according to Dr Cooper. Referring to the last, the retiring President of the Bombay Chamber, Mr J. W. Anson, had a good point to make. Calling for a fairly severe readjustment in economic policy, he suggested it might be fruitful to consider measures to utilise fully the present excess capacity in many industries before investing in similar public undertakings. Simultaneously, he also pleaded for strengthening the primary goods sector.

There seems to be a feeling that with a bumper crop consumer demand would automatically revive and that, the phenomenon of recession, being in the nature of an inter-industry adjustment, would soon rectify itself. Both these lines of thought were debunked by Mr Birla. He asked how, despite the bumper crops of 1964-65, consumer demand had not revived, and he wanted to know why our policy-makers have shied away from explaining this. Similarly, he blamed the authorities for delay in adopting remedial measures and said how, in the absence of corrective measures, the sectoral character of recession would tend to spread. Accordingly, he cautioned the government against looking upon the present situation as a passing phase in economic activity and urged it to take appropriate action without further delay.

Both Mr Birla and Dr Cooper stressed the need for production-oriented fiscal and monetary policies. Also, the two called on businessmen to have a critical look at the operation of industry itself and urged them to diversify production, have effective management, effect economies and avoid waste. In the context of cost management, Mr Birla expressed the

view that, as recession had made it inevitable for less efficient units to go out of production, they should consider regrouping among themselves so as to reap economies of scale, and this, "he added significantly," is not to make any one big. Indeed, he said, none of our private industries can be compared to the top 500 US companies listed in *Fortune*. He also laid stress on the need for more imaginative marketing and salesmanship to be able to sell better at home and abroad.

Mr Tata who formally inaugurated the annual general meeting of the IMC, looked at recession from another angle. The country being on the threshold of an agricultural revolution, he wanted industries, hitherto dependent mostly on government orders and urban demand, to set about reorientating their marketing strategy; he did not share the view that an agricultural revolution had already taken place. It could be said to have taken place, he felt, only when we reach the target of 120 million tonnes (by 1970-71) and create the basic infrastructure capable of ensuring a further rise thereafter to 150 million tonnes (by 1975-76). He however warned that the task of discovering and developing the new rural potential would involve a tremendous challenge for private sector industry and trade. In almost identical language, Mr N. M. Wagle, the incoming President of the Bombay Chamber, also said: "These successful farmers present a challenge to all of us in industry and commerce to develop entirely new marketing techniques designed to satisfy the increasing demand for consumer goods in the rural sector. If we have the imagination and ability to give the farmer, at his doorstep, the consumer goods he has always needed as well as a new range of goods he can be induced to purchase, we will not only utilise this substantial latent demand to generate a revival of business activity but will also contribute towards providing the farmer with incentives for greater efforts."

This process has another important facet. The agricultural revolution referred to, as Mr Tata cautioned, would also entail an increased diversion of capital and credit from industry and trade to agriculture. In fact, this diversion has already begun and bids to swell in volume, which goes further to reinforce the need for industry and trade to leave no stone unturned to tap the potential rural demand. Mr Tata rightly emphasised the point that the challenge is not only for industry and trade but also for the government. If the tempo of the present agricultural breakthrough is to be kept up, it particularly behoves the government as he said to augment the basic infrastructure facilities, build thousands of silos and warehouses, implement a national buffer-stocks policy and give top priority to increased production of consumer goods to meet the growing rural demand. Needless to say, these measures, in their turn, would stimulate more industrial production and also provide more employment.

In a cost-push-inflation-ridden economy suffering

from a fall in demand everything must be done to stimulate demand and simultaneously to augment production to meet that demand. Hence the relevance of Mr Tata's stress on production of more consumer goods. But provision of more goods is only one approach to the problem of inflation, which demands a multi-pronged attack. All efforts must be made to reduce the truly alarming large-scale deficit financing for non-developmental purposes. Dr Cooper disclosed in his address how non-development non-plan expenditure had increased from Rs 1,223 crores in 1962-63 to nearly Rs 2,600 crores in the current year. True, certain measure of deficit financing has become necessary. If any deficit financing is essential to reactivate the stagnant capital goods industries, "we must be prepared to face

Andhra Pradesh Needs a Big Plan

THE ANDHRA Pradesh government is in the awkward position of a state which has no dearth of development schemes to be implemented on a remunerative basis but which is unable to proceed with their execution due to lack of resources. As against an increase in revenues by over Rs 30 crores in three years, there has been a decline in plan outlay by nearly Rs 34 crores since 1965-66. This retrograde trend has been brought about by a rise in administrative expenditure owing to the grant of increased dearness allowances to government employees and teachers and an improved level of non-plan expenditure. The commitments in respect of continuing schemes have also added sizably to the total of the revenue budget on the expenditure side. As a consequence, even for maintaining the activities initiated in the earlier years, it has become necessary to mobilise enhanced revenues while rising interest charges and repayments against loans taken from the central government have had a complicating effect. The plan outlay in the case of Andhra Pradesh should be at least Rs 120 crores annually instead of the meagre Rs 72 crores proposed for 1968-69. Then only it would be possible for this region with a vast irrigation potential to exploit successfully the rich natural resources. The development of the area covered by the Nagarjunasagar project alone will call for a heavy outlay while work on the Tungabhadra high-level canal, the Pochambad project and the Guntur channel scheme have to be carried out on an urgent basis. There are also the Godavari barrage project, the Yeleru reservoir scheme and the scheme for improvements in Nizamsagar which are proposed to be taken up with the resources collected through advance betterment levy.

With agricultural and irrigation schemes being accorded highest priority the centre has a duty to see that Andhra Pradesh does not suffer for the lack of resources in its effort to exploit irrigation facilities. It may, of course, be necessary for the state government to draw up a blue print which can be executed over a 15-year period on the basis of higher priority being accorded to continuing schemes and others which promise a high return on investment. It must be remember-

it" as Mr Tata observed, "with the firm realisation that it is a drug which, even though it may cure the patient, will have sharp and serious after-effects". If this or any further dose of deficit financing is indulged in, therefore, it must be accompanied with stringent measures of economy. Three major possibilities in this connection were indicated by Mr Tata: (1) a Rs 100-crore annual reduction in defence expenditure; (2) a saving of about Rs 60 crores in the administration and wage costs of government departments and enterprises and (3) a surplus of Rs 125 crores from public sector enterprises. The first of these is certainly a bold suggestion, especially in the prevailing situation, but knowledgeable sources feel it is possible to achieve it without sacrificing the interests of effective defence.

ed that any increase in the central assistance to Andhra Pradesh will be helpful from the national angle as the benefit of a higher level of agricultural production will be derived by the rest of the country, there being already a large export of food and cash crops to neighbouring areas.

The immediate task relates to the effective utilisation of the valuable irrigation facilities provided by the Nagarjunasagar project. The construction on the dam in its first stage is expected to be completed in 1968-69. There is, however, considerable work to be done in the excavation of the canals which will traverse hundreds of miles through areas which are highly suited for wet cultivation. Besides the expenditure incurred on the excavation of canals, the cultivators will have to be helped to develop the lands for growing crops of different kinds in two or three seasons, during a year. The same problem has to be tackled in respect of the Tungabhadra project. Due to neglect and inadequate financial resources, the full benefit out of the investment on this project is yet to be derived. Since the work involved in the digging of canals and in the reclamation of land for irrigation is heavy and will have to be carried out over a long period, the Andhra Pradesh government would have to create a special wing for this purpose and also evolve new techniques for financing these projects. As the outlay on developing land can be recovered over 15 to 20 years from the beneficiaries concerned there will be no harm in indulging in productive deficit financing towards this end. The state should also create a machinery which will provide the necessary service for the preparation of land for cultivation and sell the required agricultural inputs on easy credit terms. The improvement of irrigational facilities in the existing ayacuts has also to be done urgently and the procedure adopted by the government for mobilising resources through the collection of betterment levy in advance from ryots will ease the strain on financial resources to some extent. Entirely new projects involving huge outlays will necessarily have to await their turn. It will serve no useful purpose if an attempt is made to undertake work on

too many projects at the same time and there was a dissipation of scarce resources.

While Andhra Pradesh has a legitimate claim for obtaining larger central assistance for expediting the implementation of irrigation projects and for the development of land, it has also a duty to recast its schemes in a manner which would lead to a better use of available funds. For instance, there is no need for the Andhra Pradesh Electricity Board to create additional generating capacity, thermal or hydel, immediately. The southern states have a large unutilised generating capacity and the approach to the problems relating to the construction of thermal or hydel schemes should be on a regional basis. Even here, hydel projects which are likely to be completed in comparatively short period, should be accorded greater priority than others. The state government should, therefore, devote its attention for some years mainly to the execution of a crash programme of rural electrification and the installation of pumpsets and the energisation of tube-wells. The per capita consumption of electricity in Andhra Pradesh is very low and many areas are not able to adopt lift irrigation due to the lack of power. As there has been a sharp increase in generating capacity in the past three years and Mysore and Madras states will be in a position to export the required quantities of power, the main concern of the State Electricity Board should be to construct transmission lines and create distribution facilities. If there was need for buying power from Mysore, an agreement could be concluded on advantageous terms. There would be no meaning in generating thermal power on a costlier basis and diverting funds for creating new capacity when

Non-Tariff Barriers to Exports

THE COMMERCE Ministry has requested industrial and trade organisations to furnish it with information about the non-tariff barriers imposed by developed nations on imports from the developing countries including ours. It is surprising that the Commerce Ministry should have approached these organisations for the data on non-tariff barriers almost a month after the start of the UNCTAD session. After the Kennedy Round was completed in May last, it was clear to every one that henceforth the developed countries would resort increasingly to non-tariff barriers so as to shut out imports from the developing countries. Originally, it was expected that the Kennedy Round would deal also with measures for the removal or relaxation of non-tariff barriers. But for some reason or the other this problem was not considered. The fear was then expressed by developing countries that whatever small benefits they had secured in Geneva would somehow be neutralised through manipulations of the non-tariff barriers by the developed countries. *The Economist*, for instance, wrote in May last year: "The Kennedy Round stands out as probably the last of the big tariff cutting rounds partly because tariffs are now so low; but also because—and this is why trading blocks remain

there is a problem of utilisation in a neighbouring state. The further expansion of the Kothagudem thermal station could, therefore, be halted and attention paid, for the time being, only to the completion of the Srisailem and Nagarjunasagar hydel projects. Even here, the latter should be accorded greater priority. If this procedure is adopted, the results obtained from the same doses of investment would be spectacular and the process of consolidation, on which the state's Chief Minister, Mr K. Brahmananda Reddi, has laid so much emphasis, can be helpful in accelerating economic growth rate and raising the general level of incomes. The exchequer too would be able to realise larger revenues without resorting to additional taxation.

It remains to be seen how this state's problems will be tackled by the centre and whether there will be preparedness on the part of the Planning Commission and the statutory financial corporations to evolve new techniques which will be helpful in eliminating the financial bottlenecks. Mr Brahmananda Reddi has actually put forward a claim for a larger devolution of revenues from the centre, suggesting that the new Finance Commission should determine afresh centre-state relations. Other states too have made similar suggestions. But no one has so far indicated how the pool of resources can be augmented. It will be difficult to avoid imposition of fresh taxes on agricultural incomes for long as the burden on these is not heavy. Until the climate is created and there is a proper realisation of the benefits derived by the agricultural sector, other methods should be tried. Otherwise, Andhra Pradesh and similarly placed states cannot hope to progress at the desired rate.

so important—industrial countries are finding their means of protection in non-tariff barriers to trade. The growing importance of these other barriers was one of the most depressing facts to emerge from the last year of the four-year-long Kennedy Round negotiations..... A round on these (non-tariff barriers) would be even thornier than the last four years in Geneva. Such a round is therefore hardly likely to come soon. And until it does, the success of the Kennedy Round in preventing protectionism will at most be partial."

But, surprisingly, the Commerce Ministry remained practically indifferent to this problem. It could have ascertained the relevant details from the commercial sections of our embassies. It could have asked the Export Promotion Councils and Commodity Boards to study the problem in depth. But the ministry has allowed itself to be caught napping. Unfortunately, neither the Federation of Indian Chambers of Commerce and Industry nor the Associated Chambers have taken the trouble to study the problem in detail.

Non-tariff barriers take many forms such as import ban, quota restrictions, licensing requirements, state

trading, monopoly purchases, consular formalities, anti-dumping laws, mixing and marking regulations, minimum stock requirements, minimum prices below which import is banned, administrative and technical regulations, surcharge on imports, and fiscal levies such as turnover tax, compensatory purchase tax, consumption tax, stamp tax, excise tax and sales tax. As the UNCTAD secretariat has pointed out, quantitative restrictions are "one of the most important non-tariff barriers affecting international trade and in particular the exports of the developing countries."

It is estimated that out of the imports of manufactures and semi-manufactures into the major developed market economy countries (the USA, Canada, the EEC, the EFTA, Australia, New Zealand and Japan) in 1965 valued at about \$7,000 million, nearly 15 per cent was subjected to quantitative restrictions; and the items involved included cotton textiles, jute goods, woollen textiles, hard fibre, coir products, processed vegetables and fruits, meat products, cereals, beverages, spirits, leather, essential oils and glassware. The secretariat observes that certain levies, called "para-tariff" barriers, can be an even more effective control on imports than quantitative restrictions. Important "para-tariff" barriers include the use of different tariff nomenclatures and classification of goods for customs purposes on bases different from those normally applied; and the incomplete and delayed publication of customs information.

The first UNCTAD recommended that "developed countries should not, ordinarily, raise existing tariff or non-tariff barriers to exports from the developing countries, nor establish new tariff or non-tariff barriers or any discriminatory measures, where such action would have the effect of rendering less favourable the conditions of access into their markets of manufactured and semi-manufactured products of export interest to developing countries." It also suggested that if in exceptional and compelling circumstances, a developed country imposed or intensified import restrictions, it should do so only after consulting the affected countries bilaterally or through international institutions. But it appears that little progress has been made so far in implementing this recommendation.

The UNCTAD secretariat itself does not appear to have full details regarding the operation of the various non-tariff barriers. The difficulty arises because such data are rarely published. Even so, a good deal of information could have been collected from various countries if systematic attempts had been made in this direction. But even if we had all the information, it would have been a problem to persuade the developed countries to remove the non-tariff barriers or at least to reduce their severity. The UNCTAD secretariat has suggested that so far as quantitative restrictions are concerned, they can be tackled by different approaches: the unilateral, bilateral or multilateral approach; product-by-product approach; gradual enlargement of

quotas; removal of quantitative restrictions with or without voluntary export restrictions; and the removal of quantitative restrictions with or without the undertaking of adjustment assistance measures. The secretariat does not appear to have examined the possibility of the removal of other non-tariff barriers. But it is obvious that the problem is too complicated to be tackled in a general way or in a short time. Such restrictions can be removed only over a period of years after detailed negotiations and after providing for suitable assistance to the industries in the developed countries, which are likely to be affected by the removal of these barriers.

But the removal of non-tariff barriers will not by itself help to promote our exports in a big way unless our industries make serious efforts to produce at competitive prices and we are able to offer adequate supplies of the products in demand in the developed countries. While the Commerce Ministry should expedite its efforts to collect all data about non-tariff barriers, it should at the same time concentrate its attention on measures that will help our industries to expand and diversify and play an effective part in export promotion.

Eastern Economist 20 Years Ago

MARCH 5, 1948

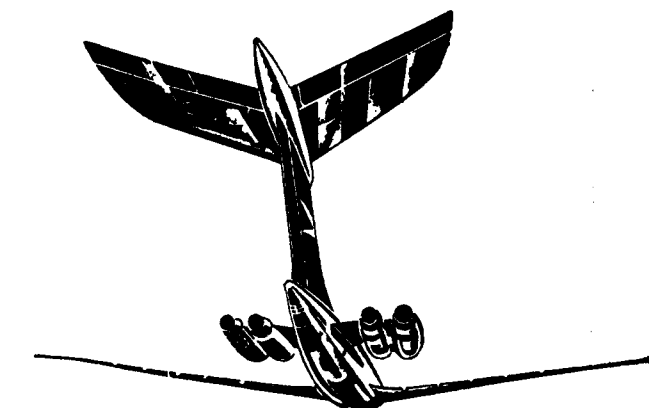
When in November last Mr Shanmukham Chetty presented his Interim Budget before the legislature, he held out a promise of tax relief to industry which had been hit very hard by the drastic tax proposals of the last budget of undivided India. The need for such relief was not in doubt, and it was clearly felt that the taxes introduced therein were defeating their own purpose by stifling productive effort and by discouraging capital formation. There was no surprise, therefore, when the budget, last week, made some concession to industry for that was the path indicated both by wisdom and expediency. The question rather is will that relief be enough? Writing at about the time of the Interim Budget, we had held the view that tax relief to the extent of about 14 crores could be easily given. But we argued this would depend on the extent of economy the Finance Minister was able to effect in expenditure and we suggested pruning of Civil Expenditure by some Rs 8 crores and the slashing of the Defence Expenditure chargeable to revenue for an amount that would bring to it Rs 100 crores. The figure of Rs 8 crores was for economy to be achieved more or less in the natural course by what is called Treasury Control. With the Economy Committee now in the field, much more could be hoped for. Unfortunately, the Economy Committee has not been able to have its say in this matter yet and all that was found possible is the token cut of Rs 2.5 crores, although it is promised that if the Committee is able to discover any larger drains, steps would be taken to stop them. As far as Defence Expenditure is concerned, it stands at Rs 121.08 crores, appreciably over our datum figure. And the consequence is that the aggregate relief to industry is, we are afraid, not sufficient. The Finance Minister has left industry in the position of Oliver Twist, where it must ask for more.

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Issued by: J. E. Jhirad, Bombay,
Constituted Attorney of
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Tax Structure and its Effects on Savings & Growth

B. R. SHENOY

ECONOMICS IS not astro-physics. It deals with the day-to-day problems of man and the community. If economic theory does not throw light on the problems of life which confront the nation or the firm of which the economist may be a part, he may be wasting his own time and that of his audience. Equally, there can be no such thing as a certain proposition being correct in theory; but that the opposite proposition alone holds correct in practice. What is wrong in theory does not become true in practice. We have the best results when theory is well-informed with the realities of life; and policy measures are well informed with the guidelines which theory may provide.

If I may now go straight to the heart of the problem, our prime concern in India, today, is economic development. By this we mean more food, more clothing, more and better house room, more and better education, and so on. We seek more of the good things of life not for pressure groups alone, but for the masses of the people as well. Our objective is a continued rise in mass well-being.

It is well to recognise that during the past one and a half decades of the so-called planned economic growth, we have not achieved noteworthy progress in mass well-being. Since 1955-56, when an acceleration of these policies began, we have had remarkable sectoral progress in the so-called infrastructure industries—in the output of iron and steel, engineering hardware, heavy chemicals and capital formation in mammoth river-valley projects. Industrial production generally, which accounts for but 20 per cent of national income, rose at an annual rate of 10 per cent, though latterly this rate has noticeably declined.

By contrast, agricultural production, from which 70 per cent of the population draws its income, rose only at an annual rate of 1.3 per cent. Since 1960-61, it has been semi-stagnant or worse, the index remaining at around 149.5 (1950-51=100). If agricultural production rose by 11.1 per cent in 1964, because of good monsoons, it fell by a much larger percentage (16.8) in 1965-66, so that, looking to the period since 1960-61, the overall incomes of 70 per cent of the population have not gone up. It is not during the past two years of bad monsoons alone that agricultural incomes have suffered. The problem is much more basic than the traditional uncertainty of the weather. As agricultural population has gone up in the meanwhile, the inference is that per capita well-being of this sector of the population has gone down.

Forward Leaps

This is not to say that we have not made forward leaps. But these leaps forward have been in the assets, incomes and consumption of thin upper-crust of the community, though this upper-crust has, doubtless, grown at a remarkably rapid pace. If we take 1954-55 as our base year, we find statistical confirmation of this development in the national pattern of consumption. Registration of motor cars has increased 2.4 times, and the production of refrigerators 37 times. On the other hand, domestic consumption of coarse cotton cloth has gone up by but 34.1 per cent, or less than the rate of increase of population.

Every politician in power tells us that we are aiming at a socialist pattern of society. He is so absorbed in his ideation of socialism that he may not realise that what he has really produced is cadillac socialism, or since the upper classes in India have made rapid strides in their habits of consumption and living, cadillac and champagne socialism.

This disappointing picture of stagnation or worse in mass well-being with contrasting prosperity conditions for a minority is not economic development. We have had during the

This discourse, delivered by Prof. Shenoy at a recent seminar organized by the Federation of Indian Chambers of Commerce and Industry, is of topical interest and importance.

past about 10 years abundant economic development of the affluent sectors of society.

And yet, during the past 15 years, total investment in India has shot up to over 3.4 times, from Rs 3,760 crores in the first Plan to Rs 12,760 crores in the third Plan. The figure is rising higher still. Economic development is not a matter of savings and investment alone. The direction of investment is no less important. Capital formation may mount up statistically but if investment goes into wrong channels, we may well be adding to chaos, not to development. This is what we have been doing in India, in the name of planned economic growth.

Two things emerge from this discussion. First, the raw material of development is savings, domestically generated savings and foreign savings, injected into the national economy. Second, the most effective investment of these savings, the quantum of savings and foreign aid, and their most effective investment are equally important.

Declining Savings

It follows that, since we do not wish to lean heavily on foreign aid, the aim of all policy measures should be to stimulate domestic savings and to ensure the most effective utilisation of these savings. During the past one and half decades our policies have had exactly opposite effects. The rate of saving has been for long semi-stagnant; latterly, it has declined. My own conjecture, based on official surveys, is that, since 1958-59, the rate of saving remained at an order of 7-8 per cent, except in 1960-61, when it temporarily went up, the result of a noticeable increase in per capita income. We have had no surveys relating to the years following 1962-63. But there may have been some increase in saving in 1963-64 and 1964-65, when per capita incomes went up, the result of good agricultural production.

The official figure of saving in 1965-66 is 10.3 per cent. It is difficult to accept this figure, as per capita income of the year fell from Rs 339 to Rs 313, at 1960-61 prices. The official figures show a decline of the saving rate to 8.2 per cent in 1966-67 and further down to 6.4 per cent in 1967-68. If we squeezed out the water of inflationary finance from the statistics of savings during this period, the decline in the rate of saving may be even more distressing.

These figures merit pondering over. They provide evidence of a most important factor operating in the national economy which has caused our economic chaos—a decline in the rate of saving, the clay with which to build the structure of economic growth. In such a context, we have been diverting over 70 per cent of the total investment resources (domestic saving plus foreign aid) into the public sector, to finance the so-called basic industries, and social overheads. If to this is added the resources drawn into industrial production, the balance available to agriculture, which contributes one-half of Indian national income and brings living to 70 per cent of the population, may be of the order of 20 per cent. The natural outcome of this arrangement has been capital decay in agriculture, stagnant agricultural production and mass well-being. If economic conditions are not worse than they are, this is because part of the damage is covered by massive foreign aid.

Why is the rate of saving declining? My answer is four-fold: first, the phenomenal stepping up of revenue collections

and public consumption; second, the no less phenomenal increase in public sector investments; third, import licensing and other economic controls; and, finally, inflationary finance.

The link between the steep rise in revenue collections and the decline in savings is easily seen. The revenue collections shift incomes from the pockets of the people into government treasuries. Virtually the whole of revenue receipts are burnt up in public consumption, the amounts saved through revenue surpluses for capital formation in the public sector being, since 1960-61, a meagre 3.8 per cent of the revenues. In the hands of the public the same incomes might have added to savings vastly more, perhaps about 25 per cent, as the marginal rate of saving of the more significant groups of tax-paying public may contrast with the rates of saving of the rest of community.

On this basis, every increase of Rs 100 crores in revenue collections may deprive the private sector of Rs 25 crores of savings, while it may add Rs 3.8 crores to public sector capital formation; and the net result may be a decline in national savings by about Rs 21 crores. The converse may also hold true. With every scaling down of revenues by Rs 100 crores, private savings may go up by Rs 25 crores, public sector savings may fall by Rs 3.8 crores; and national savings may show a net increase of about Rs 21 crores.

It follows that if, for instance, revenue collections of the centre and the states were held down to their 1959-60 level, the incomes of the people after tax will have been larger by Rs 9,800 crores, the amount of the additional revenues collected by the government during the five years, 1961-62 to 1966-67. Placing the net rate of additional savings at Rs 21 crores for every Rs 100 crores tax reductions, national savings of the period might have gone up by Rs 2,060 crores, or Rs 412 crores annually. The savings of this period being about Rs 8,400 crores, the increase in savings might have been 24.5 per cent of the actual savings.

Sadistic Theory

If accelerated economic development is the prime concern of underdeveloped economies, they can ill-afford to pursue the socialist theory of taxation. This theory is almost sadistic in its approach. It envisages the use of the tax instrument for "mowing down" individual earnings to an arbitrarily prescribed ceiling. Taxation is avowedly meant to hurt and to tax some out of existence. Replying to the budget debate in the Rajya Sabha on March 13, 1961, the Finance Minister observed that "fifteen or twenty individuals were today paying 120 per cent (of their income) in taxes". Individuals paying taxes above 100 per cent of their income may be much larger.

If we are really eager to reach the "take-off" stage of economic growth speedily, we must abandon these policies of expropriatory taxation. India is among the most highly taxed nations in the world. Our marginal tax rates on the upper and top income slabs are higher even than in the socialist countries of Norway, Sweden and the United Kingdom; and vastly higher than in the USA and West Germany.

The West German economic miracle was not produced by an indiscriminate wielding of the tax weapon. It rested on, among other things, "a systematic limitation of spending by the state" and "generous allowance for depreciation and a series of other privileges".* Professor Erhard reduced taxation "to a point where the top individual tax was no more than 50 per cent".** The economic philosophy of the liberal school of thinkers, which in some limited measure animates the European Economic Community, advocates lowering of the tax burden, not stepping it up.

A comprehensive programme of tax reform aimed at maximising savings and, therefore, of investments, employment and output, should embrace virtually the whole range of taxes and revenues. The effort should be the reverse of the effort

currently in evidence, of seeking heads of revenues where rates are low, for lifting up the rates and the collections; with land revenue among the notable exceptions, tax rates all round are unduly high. They all need to be axed drastically if the country must prosper—import duties, excise duties, taxes on personal income and corporate taxation, which account for the largest bulk of the central revenues.

In this range of taxes, progressive taxation seems to be particularly pernicious, as, to the extent it has been effective, it has caused great damage to economic and social progress. Like other similar measures it has been smuggled into general acceptance, under false pretences, to quote Professor F. A. Hayek. We have been so reconciled to it that some of us might be taken aback to be told that its economic and ethical foundations are weak, to say the least, and its effects perverse.

Initiative Stifled

First, progressive taxation is generally believed to be just and equitable but it is a tax on initiative, talent and efficiency. It penalises successful entrepreneurs. It violates the basic doctrine of equality of all before the law. It amounts to paying progressively less for more work by men of the highest productivity. Secondly, it protects individuals and groups, who have already amassed vast wealth, from competition by new comers, as, if taxes are paid as prescribed, new men of outstanding business talent would find it impracticable to accumulate wealth. The major route to individual capital formation, namely, through business success, being thus virtually frozen, wealth inequalities would tend to become static. Both these factors might deprive society of the full production advantages of some of its ablest entrepreneurs and professional men. As experience has shown, wealth and income inequalities stand to be reduced through the dynamism of the vertical mobility in wealth and income acquisition, and through accelerated production, which provides the wherewithal for reducing inequalities. Progressive taxation stifles this dynamism of vertical mobility and, therefore, is apt to defeat its egalitarian purpose. Thirdly, progressive taxation causes perhaps the heaviest damage to the growth of national savings.

The widely accepted view among the liberal school of economists today favours the abolition of progressive taxation altogether and its replacement by a flat income tax applicable to all incomes above a minimum. I may mention, in particular, the writings on the subject by Blum and Kalven, Milton Friedman, F. A. Hayek, H. L. Lutz, Lord Lionel Robbins and David McCord Wright. The following quotation from Professor Milton Friedman's book on 'Capitalism and Freedom' (1962) is perhaps representative of the thinking of this school on this subject:

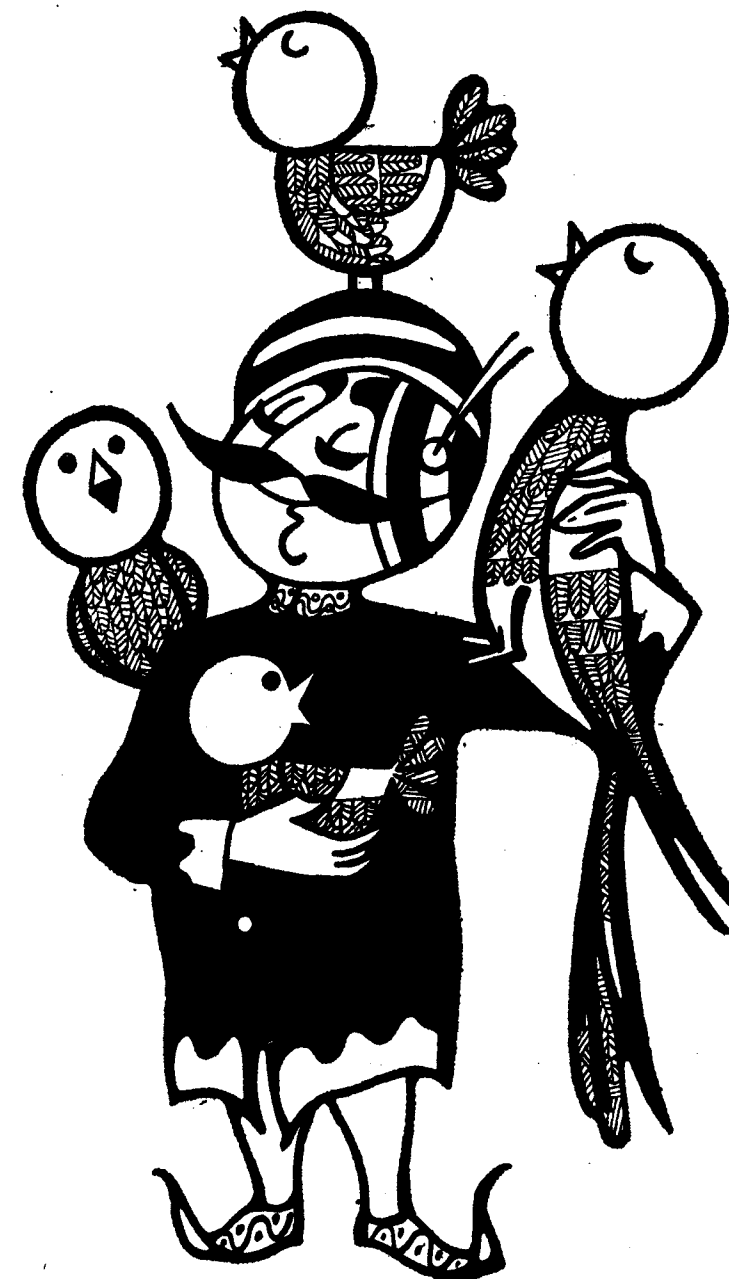
"All things considered, the personal income tax structure that seems to be best is a flat-rate tax on income above an exemption.....I would combine this programme with the abolition of the corporate income tax, and with the requirements that corporations be required to attribute their income to stockholders, and that stockholders be required to include such sums to their tax return".

It is interesting to recall that ancient Indian tradition is in line with the modern trend in tax theory. This tradition prescribes a flat tax rate for all; a tax rate of one-sixth of income was, apparently, so universal that one of the synonyms of the king is 'Shastamsha-Vrithi', one who arranges the governance of his kingdom on a tax levy of one-sixth of the incomes of the citizens.

How low should taxation be? It is not possible, consistently with logic, to prescribe any arbitrary level to which revenue collections must be scaled down. A guideline for such scaling down would be for the government to retire, progressively, to its more natural duties. The state should undertake such activities, which are essential to modern living

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* Ludwig Erhard, 'Prosperity Through Competition,' London, 1960, pp 19 and 24.

** Lawrence Ferting, "Our Exports Almost Ruined Germany" in 'Freeman,' August, 1961.

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and which private enterprise may be unwilling or unable to provide. To this category belong law and order; defence from external aggression; public health and sanitation; and honest money medium, standards of weight, length and measure; basic transport, communication and marketing services; compulsory primary education; and agricultural extension services. The state should progressively withdraw, through a phased programme of de-nationalisation, to these natural limits of its functions.

This leads us to the second factor which has taken a heavy toll of savings—the phenomenal increase in public sector activity. When Rs 100 crores are accounted to have been invested in a public sector undertaking, the full amount of Rs 100 crores does not, in fact, go into the project concerned. What goes into the project may vary with circumstances and the category of the project concerned. The actual materials going into the projects may vary from 60 to 80 per cent. We could dismiss this as a minor matter, as being inevitable to PWD undertakings. But large corporations have taken the place of the old PWD and the state today appropriates over 70 per cent of total investment resources. Considerable amounts, possibly a couple of hundred crores of rupees a year,

are converted from savings into private incomes, though in the account books they appear as investment.

There is really no practical solution to this problem even as there is no means of preventing fish from drinking water; it underlines the basic truth the state is an evil when it plays beyond its allotted functions. The damage to development from the undue expansion of public sector undertakings has also ensued from the low average returns on investments in this sector. These average returns are of the order of one per cent or less. The same amounts invested in agriculture and in the consumer goods trades would take us vastly faster along the road to progress.

Inflation eats into savings through shifting incomes from the masses and wage earners into the pockets of residual income groups. When the level of living is already low, consumption being largely limited to necessities of life, these income shifts cannot be met by cuts in consumption on the part of the victims of inflation. Cuts in consumption would be resisted. It may continue as before, the income shifts being drawn from potential savings. Consumption of the beneficiaries of inflation, on the other hand, would increase. Inflation in a background of poverty would, thus, be a net debit on national savings.

Bank Advances Against Shares

SUHAS JOSHI

BANK ADVANCES against shares, as in the previous busy season, have once again proved to be the Achilles' heel. Towards the fag-end of the previous busy season, the Reserve Bank of India (RBI) reminded the Indian and the foreign banks of the need to adhere to the 80:20 ratio of credit distribution as between industry and trade and warned that failure to do so would invoke the penal provisions of section 46 of the Banking Regulation Act. As a result, banks dramatically froze the overdraft limits inflicting untold hardships on traders and thereby cutting short the span of the busy season by nearly a month. In the beginning of the current busy season, the RBI issued guidelines in respect of share advances with a view to rationalising the policy of commercial banks, but the banks took an alarmist view and recently, it is reported, some 'tendentious' rumours of indiscriminate recall of such advances by commercial banks were set afloat. The banks alone cannot be regarded as the sole culprit for this mischief in as much as the RBI has always frowned upon share advances as these are presumed to be utilised for speculation or for unproductive purposes.

A landmark in Reserve Bank policy of curbing unhealthy speculation in stock markets took place in March 1960 when banks were prohibited from engaging in direct financing of badla transactions and a minimum margin of 50 per cent on scheduled bank advances above Rs 5,000 against equity shares was enforced. This step was necessitated by the continued buoyancy on the stock exchange and a sharp rise in share prices. The minimum margin requirement was in force till January 1962, when, along with the liberalisation of many other credit controls, it was relaxed to 40 per cent. This was warranted because bank credit against shares remained more or less stable in spite of a significant rise in the volume of new capital issues and in share prices and also because all stock

exchanges had, since December 1961, introduced a system of regulatory margins. The margin system introduced by the stock exchanges, which was further tightened up in June 1963, was very effective in checking speculative activity in the stock markets. Again, with the New York Stock Exchange crisis, followed by the Chinese aggression on our northern borders, stock market prices crashed. And, in order to help revive the capital market, the RBI withdrew the minimum margin requirement of 40 per cent with effect from October 30, 1963.

It is known that every bank has evolved its own safety rules to be observed while sanctioning overdrafts against shares. On the basis of the marketability and the break-up value of shares (which is computed by dividing the paid up capital plus reserves plus net profits minus intangible assets by the number of ordinary shares of the company concerned), shares are put on the approved lending list and card limits to the extent of 60 per cent of market value are prepared. These limits are constantly revived with every significant rise or fall in market prices. Whenever shares are accepted as security, banks generally get them transferred in their own name as an extra precaution.

In holding shares in their names as trustees, or custodians, banks are at present faced with a great handicap created by a circular issued by the Central Board of Direct Taxes in March 1967 whereby the real or beneficial owner will be taxed on the gross dividends though the credit from tax deducted at source will not be given to him in spite of the tax deduction certificate generally issued by banks. The banks are now faced with the stupendous task of filing income-tax returns and this would further involve elaborate accounting work of distributing the lumpsum tax credit amongst numerous beneficial shareholders by issuing individual pay orders. In spite of many representa-

TABLE I
SCHEDULED BANK ADVANCES

	1960	1961	1962	End of 1963	1964	1965	1966	July 1967
a) Shares of joint stock cos.	78.5	85.2	90.5	94.3	93.8	87.5	85.4	80.7
1. Stock & share brokers	12.2	12.1	10.8	11.1	10.5	8.3	9.1	7.6
2. To others	66.3	73.1	79.7	83.2	83.3	79.2	76.3	73.1
b) Debentures of Jt. stock cos.	20.0	23.5	24.2	22.2	23.4	29.3	30.8	33.4
c) Total secured advances	1003.8	1113.6	1221.3	1318.1	1517.2	1817.2	2056.9	2219.8

tions to the Ministry of Finance, no decision has been taken so far. A similar situation arose in April 1953 whilst withdrawing the tax credit or refund allowed to a beneficial shareholder but the government then showed wisdom by promptly withdrawing this circular in December 1953.

The RBI discourages banks to extend this sort of credit, it would seem, mainly for two reasons: first, it is supposed that advances against shares are generally used to finance speculative activity, and, second, such advances, particularly those against block shares, enable the borrower to acquire or retain a controlling interest in concerns thus leading to concentration of ownership of property. It is true that the banker is unable to ensure that the advances against shares are utilized by the borrower for the purpose for which they are granted. Also these advances became vulnerable to the RBI attack because of such practices as blank transfers (brought to light by an enquiry committee appointed by the central government in December 1956). Blank transfers enabled concealment of the identity of the real beneficial owners and evasion of tax by suppression of secret profits by bringing into existence fictitious transactions pertaining to fictitious losses in investments. A series of remedial measures were taken in March, 1966, amending section 108 of the Companies Act, 1956, which imposed certain restrictions on the period of currency of blank transfer of shares. A transfer deed is to be dated by the Registrar of Companies and the deed is valid for two months after this date or the closing of books by the company, whichever is later. But this left a small loophole for flouting these directions. For example, if the shares are lodged in a bank after the closure of books of the company whose shares are lodged, they can remain in circulation for one year till the next closure of books. Besides, a new form of transfer deed was introduced by the government to have a uniform procedure in all stock exchanges. The cumulative effect of all these measures on banks is that unremunerative work has increased in respect of transfer of shares.

The RBI also took some measures to curb the tendency towards concentration of property. In September 1966 it issued a directive to banks insisting that, where block shares are

kept as security, if they exceed 10 per cent of the paid-up capital of a company, the limit should be reduced by 10 per cent every year till it goes below 10 per cent. According to section 19(2) of the Banking Companies Act, 1949, a ceiling of 30 per cent of a company's paid-up capital or 30 per cent of a bank's paid-up capital and reserves (whichever is less), is already prescribed for bank advances and investment together in the shares of a company.

The Net Result

The net result of the handicaps experienced by banks in granting advances against shares, as also of the Reserve Bank policy of discouraging this form of credit, is clearly discernible from Table I (page 399). It will be seen that, even though the total secured advances of scheduled commercial banks have more than doubled from December 1960 to July 1967, advances against shares of joint-stock companies have remained more or less static around Rs 80 crores, while advances against debentures of joint-stock companies have registered a gradual but continuous rise from Rs 20 crores to Rs 33 crores during this period (except for the year 1963). The proportion of these advances to total secured advances has declined from 10 per cent in 1960 to 5 per cent in July 1967. Another interesting feature revealed by the table is that advances to stock and share brokers have declined from Rs 12 crores to Rs 7.6 crores during this period.

As for the charge levelled against this form of credit that it is utilised for speculative purposes, it can be said that shares and debentures constitute a very convenient and common form of security which the investing public can offer when in need of money. A bulk of such credit advanced to individuals is not likely to be utilised for speculative purposes. Moreover, the scope of the speculative character of this credit is now very much reduced as its volume has not risen at all recently. Table II, which gives the variations in these advances during the busy and slack seasons, confirms that advances against shares and debentures do take on the character of production-oriented credit. It reveals that, for the past four seasons, the proportion of increase in such advances to expansion in secured advances has declined considerably in the busy seasons.

In the slack season of 1965 the decline in advances against shares and debentures formed as much as 14 per cent of total contraction of secured advances. The fact that banks can effect a significant reduction in such advances during slack seasons would seem to suggest that they might have been directed for financing increased busy season productive activities. The Reserve Bank also seems to have now been convinced, though belatedly, of the role of share advances in financing productive activities or at least of inconvenience caused to the public by recall of such advances. In its latest circular of January 29, 1968, the RBI has urged banks "not to disturb the flow of this credit and even reasonable credit to sharebrokers to finance badla operations and to finance their own stock of shares should not be denied."

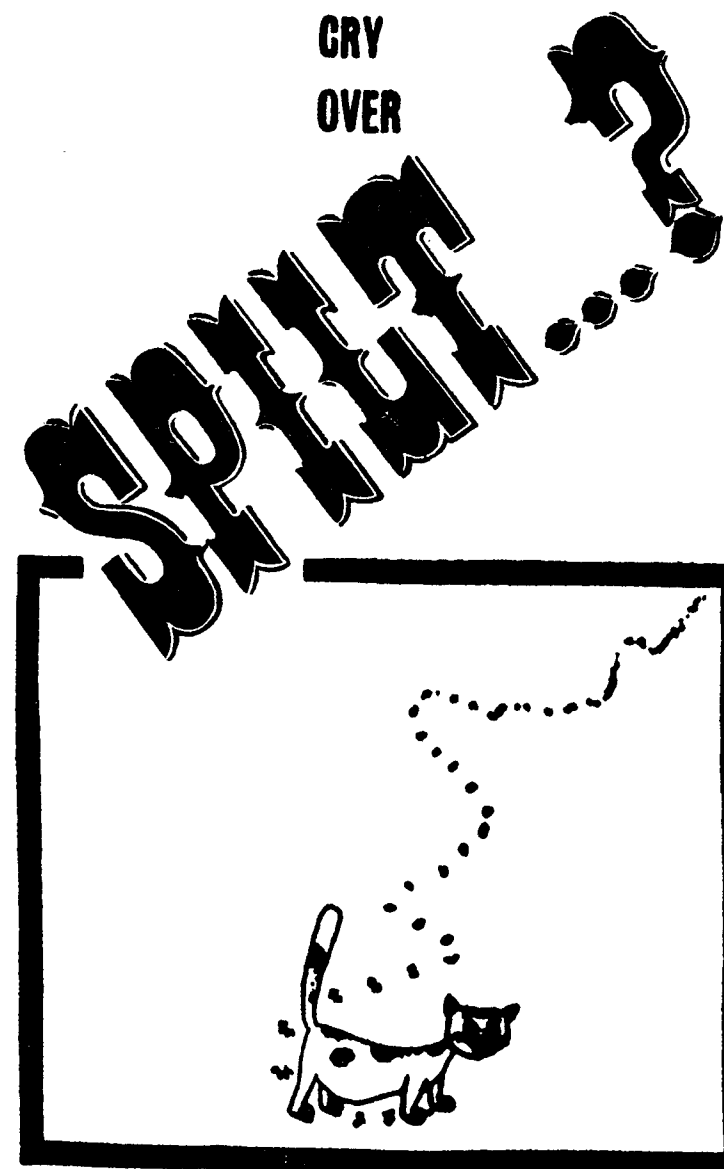
TABLE II
VARIATIONS IN SCHEDULED BANKS' ADVANCES
(Rs crores)

	Shares & Debentures of Joint Stock Cos.	Total Secured advances.	%
Busy Season			
1960-61	+ 9.6	+ 198.7	4.8
1961-62	+ 10.2	+ 179.9	5.7
1962-63	+ 5.1	+ 197.7	2.6
1963-64	+ 11.9	+ 352.7	3.4
1964-65	+ 4.6	+ 369.1	1.3
1965-66	+ 5.7	+ 270.2	2.1
1966-67	+ 11.9	+ 431.4	2.8
Slack Season			
1961	- 1.5	- 81.9	1.8
1962	+ 1.3	- 59.6	2.1
1963	- 7.7	- 157.5	4.9
1964	- 9.7	- 139.9	6.9
1965	- 7.7	- 53.7	14.3
1966	- 8.8	- 114.0	7.7

In order to rationalise the policy towards advances against shares, the RBI released in November 1967 guidelines as suggested by the Working Group set up by it; unfortunately, it created such a furor and scare amongst stockbrokers that November 10 was considered as 'black Friday'. The fact that the RBI had subsequently to issue five circulars clarifying that no new restrictions had been imposed on such advances shows the extent of confusion and chaos created in financial circles by these guidelines. Anyway, the Reserve Bank's insistence to lay down a repayment schedule with its approval in respect of advances against block shares and advances to managing agents against the shares of the managed companies exceeding Rs 5 lakhs cannot be said to be altogether misplaced. And to demand a repayment programme for long-term advances is just customary for the Reserve Bank.

The extent of avoidable scare created in the stock markets underlines the need for those in charge of stock exchanges to play a more effective role in educating their members on such policy statements. Wild rumours about indiscriminate recall of advances by banks were mostly unfounded; many banks had to ask borrowers to put their accounts in order as their drawing limits came down with the steep fall in share prices. It is possible there may have been a few instances of recall of small advances due to misunderstanding, but anyone who reads the Reserve Bank circular of November 8, 1967, would testify that the underlying tone of this circular is only restrictive. Be that as it may, in the latest circular of January 29 the Reserve Bank has at least taken a rational and realistic attitude towards such advances; it has tried to lay down a proper base to bring about expansion of this credit in the desired direction, which should go a long way towards propping up the confidence of the investing public.

WHY
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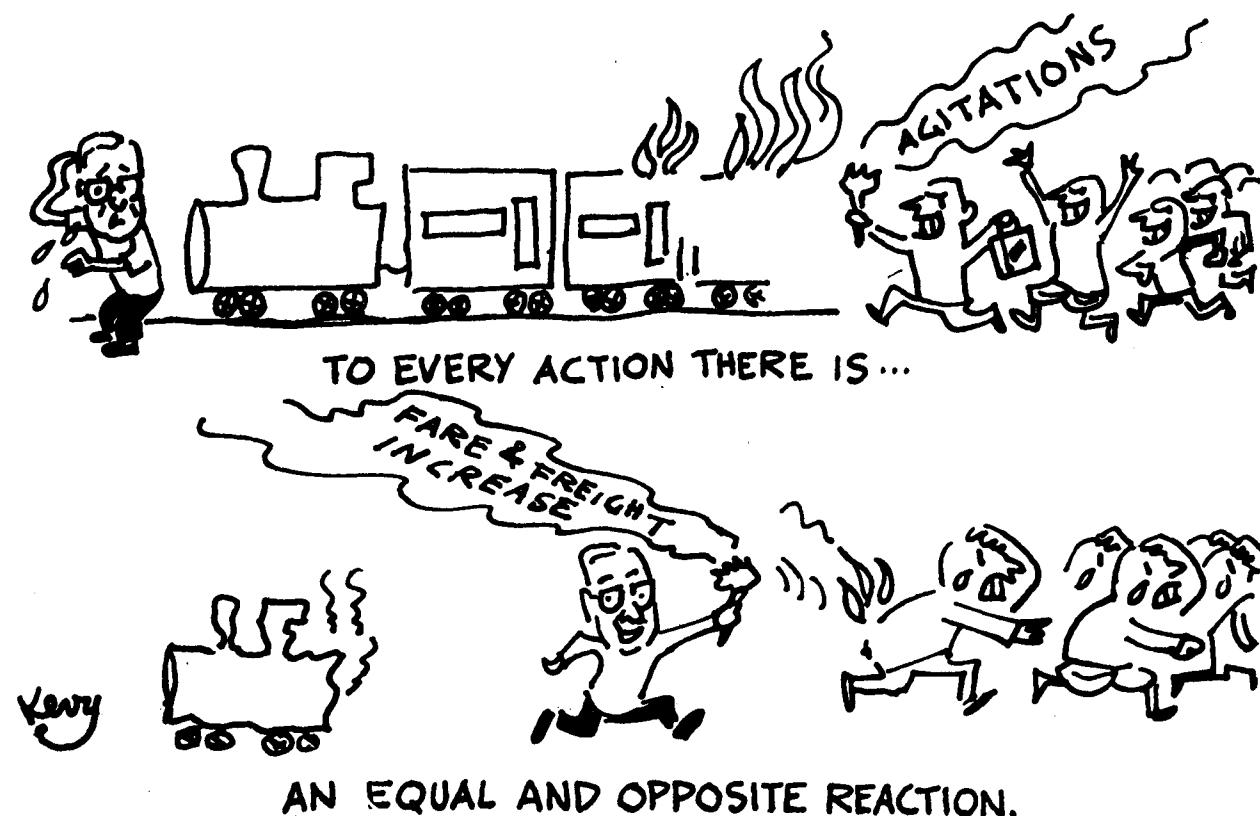
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FROM THE CAPITAL'S CUPBOARD

Needed: Sophistication in Oil Refining

DETAILS ARE now available of the expansion recommended by the Indian Institute of Petroleum in the oil refining capacity. Towards the close of last year, the Institute had undertaken a study in collaboration with the Ministry of Petroleum and Chemicals to assess the requirements of petroleum products up to 1975. The following table indicates the recommended growth:

(million tonnes)				
Year	Products			Crude Intake
1967	...	...	13.03	14.04 (actual)
1968	...	...	14.73	15.84
1969	...	...	16.11	17.33
1970	...	...	18.16	19.52
1971	...	...	20.53	20.08
1972	...	...	23.05	24.78
1973	...	...	25.54	27.46
1974	...	...	27.60	29.68
1975	...	...	29.77	32.01

The likely demand for the various groups of petroleum products and their output according to the existing product pattern has been assessed by the Institute as follows:

('000 tonnes)				
	Light Distillates	Kerosene fraction	Diesel fraction	Heavy ends
1967 Sales	1407	3063	3731	4882
Production	2028	2527	3978	4446
Surplus/Deficit	+621	-536	+247	-436
1971 Demand	3966	3700	5476	7025
Production	3856	3841	5795	7187
Surplus/Deficit	-110	+141	+319	+162
1975 Demand	7486	4541	8404	8715
Production	5525	5544	8320	10413
Surplus/Deficit	-1961	+1003	-84	+1698

The only major group of products the indigenous supply of which will fall short of demand in 1971 will be light distillates, but this deficit, the committee feels, can be easily made up by cutting into the kerosene fraction the products from where will be in surplus. In 1975, however, both the light distillates and diesels will be in substantial deficit if the present pattern of production remains unchanged. On the other hand, the output of kerosene and heavy ends will be in substantial surplus. The committee has opined that in 1975 the ideal production of the various petroleum products from a refining capacity of 32 million tonnes should be as follows in the light of the expected demand: light distillates 23.4 per cent; kerosene fraction 14.2 per cent; diesel fraction 26.2 per cent; heavy ends 28.2 per cent; and gas, refinery fuel and losses eight per cent. This ideal production pattern will require raising of the yield of light distillates by about six per cent (from the present proportion) and lowering of the yields of the kerosene fraction and heavy ends by three per cent and 4.2 per cent, respectively.

Three solutions have been suggested for eliminating the imbalance in the demand for and supply of petroleum products arising out of the present production pattern. These are: (i) increasing the processing of lighter crudes; (ii) adjusting the yield pattern by changing the cut points; and (iii) using secondary processes such as hydrocracking in selected plants to increase the production of light distillates. Of the three alternatives, the scope for the first two, the Institute observes, is limited. Light crudes have to be mostly imported, raising foreign exchange difficulties. Further, they can be processed only by the coastal refineries; transporting

them to inland refineries will entail laying of pipelines at heavy cost. Some modifications in the equipment of the inland refineries may also be necessary. Large-scale shifting of cut points of the major petroleum groups, the Institute feels, will result in products going off specifications. To bring the products again to specifications, large-scale secondary treatment will be required. The installation of the necessary facilities for this purpose will involve huge cost. The Institute has, therefore, recommended a judicious mixture of the shifting of cut points and resort to use of secondary processes by setting up two hydrocrackers—one in the eastern region and the other in the western region.

CAUSTIC SODA AND SODA ASH

The Joint Committee for the Alkali Industry, set up by the government under the chairmanship of Dr G. P. Kane in July last, in its report submitted recently, is understood to have indicated that the stage of self-sufficiency has been reached in the manufacture of caustic soda. For the next few years, the committee has recommended a scheme for exporting this chemical product. As regards soda ash, the committee feels that the production capacity is just sufficient to meet the present demand. To meet the requirements of the next four years, an additional capacity of 60,000 tonnes per annum will have to be created. Among the other major recommendations of the committee are: (i) as an important step towards achieving self-sufficiency in the technology of the production of caustic soda, stress should be laid on indigenous manufacture of electrolytic cells on the basis of the existing cells; (ii) the economic size of caustic soda plants is 100 tonnes capacity per day; the existing plants should be allowed to expand to this capacity and all the new plants should be set up with this minimum capacity; (iii) the new units for the manufacture of soda ash should be set up on the modified solvay process; and (iv) bulk transport facilities for salt and caustic soda should be provided. The committee has expressed the view that the existing fabricating facilities for the production of soda ash machinery are satisfactory.

STALEMATE AT UNCTAD-II

The discussions in UNCTAD-II have reached a dead end. With the delegates of the developed countries awaiting fresh instructions from their governments, they are in no mood to deliberate upon any specific proposals of the developing nations. On the vital question of preferences, although the developing nations have indicated willingness to substantially relax their insistence on general preferences for their products, even the diluted scheme, which suggests that besides semi-manufactures the processed tropical foods should be granted general preferences, has not found favour with the developed countries. The advanced countries are also not inclined to commit themselves to increasing the flow of economic assistance to the developing nations; there is, however, some chance of the emergence of concrete agreement on debt rescheduling and softening of the aid terms. On commodity agreements as well the position is not much different; specific proposals in regard to them have yet to emerge. Although in the committee on invisibles, including shipping, the developed nations have agreed to a resolution suggesting that the conference lines should not object to consultations with shippers on freight rates, most of the other suggestions put forth by the developing countries for a greater share for them in world shipping have not yet been accepted. The committee on trade principles and the working group on food too has not made much progress. With a view to allowing some more time to the various committees and working groups to complete their deliberations, the resumption of the plenary session has been postponed.

FROM THE PRESS GALLERY

Desai's Birthday Gift

Our Parliamentary Correspondent

NEW DELHI : Friday

NOTWITHSTANDING THE fact that while presenting his budget proposals last year he had expressed in unmistakable terms his abhorrence for deficit financing in an inflationary economy such as ours, the Deputy Prime Minister and Minister for Finance, Mr Morarji Desai, seems to have reconciled himself to the necessity of substantial deficit financing in 1968-69. Presenting next year's budget proposals on his 72nd birthday yesterday, he left an estimated deficit of Rs 290 crores in this budget uncovered. He assessed the next year's total receipts, after his taxation and other proposals—both on revenue and capital account—at Rs 4,411.19 crores, as against Rs 4,299.59 crores (revised estimate) during the current year. The expenditure next year was estimated by him at Rs 4,700.46 crores as against Rs 4,599.59 crores (revised) this year. The next year's deficit thus has been estimated at a figure only slightly lower than the current year's (revised) figure of Rs 300 crores.

The Finance Minister, has been considerate in levying new taxes, both direct and indirect. With a view to helping exports and the revival of the economy and for fostering development in general and agricultural growth in particular, he has announced several concessions as well. But he has been particularly harsh in proposing upward revisions in the post and telegraph tariffs. The following are Mr Desai's proposals in respect of new taxes, concessions and the revision of the post and telegraph tariffs:

Direct Taxes

Corporate Taxes: The "dividend tax" at the rate of 7.5 per cent of distributions of equity dividends in excess of 10 per cent of the paid-up capital is to be discontinued. The rate of surtax on company profits is to be reduced from 35 per cent to 25 per cent with effect from the assessment year 1969-70.

Personal Taxation: No annuity deposits will be required to be made on incomes arising after the current financial year. The levy of separate surcharges on unearned and earned incomes is to be discontinued. The existing special surcharge of 10 per cent of basic income-tax, however, is to continue. Simultaneously, the rates of basic income-tax are being increased from 65 per cent to 70 per cent on income in the slab Rs 100,001-250,000 and to 75 per cent on income over Rs 250,000. The rates of ordinary wealth tax on individuals and Hindu undivided families is to be increased, with effect from the assessment year 1969-70, from two per cent to 2.5 per cent in the wealth slab of Rs 1,000,001-2,000,000 and from two per cent to three per cent on wealth over Rs 2,000,000. The rate of basic income-tax on incomes of co-operatives over Rs 25,000 is to be reduced from 41 per cent to 40 per cent. The ordinary surcharge of 64 per cent of the basic income-tax on incomes of co-operatives over Rs 25,000 is to be dropped.

All the above changes in corporate and personal income taxation will be prospective and will apply to incomes on which tax is to be deducted at source or advance tax is to be paid during the financial year 1968-69.

Tax Incentives and Reliefs

1. **Agricultural Development Allowance:** Companies using the products of agriculture, animal husbandry, etc., will be allowed a deduction of 1-1/5 times their expenditure on providing agricultural inputs and extension services in related fields.

2. **Export Markets Development Allowance:** Tax-payers (other than foreign companies) incurring expenditure for development expenditure for development of export markets

will be allowed a deduction of 1½ times such expenditure.

3. Indian companies will be exempted from tax on the whole of their dividend income, royalties, fees, etc., received from foreign companies in consideration for supply of technical 'know-how' or technical services.

4. The seed processing industry will be accorded 'priority industry' treatment for income-tax purposes.

5. New equipment installed for manufacture of processed concentrates for cattle and poultry feed, processed (including frozen) fish and fish products, and vegetable oils and oil-cakes manufactured by the solvent extraction process, will qualify for development rebate at the higher rate of 35 per cent of the cost thereof.

6. Expenditure on scientific research relating to agriculture, animal husbandry or fisheries will also qualify for the tax concessions in respect of scientific research expenditure.

7. The first Rs 500 of Indian company dividends will be exempted from tax in all cases, even where the total dividend income during the year is more than Rs 500.

Curbing Tax Evasion

1. Expenditure for which payment is made to relatives or associate concerns will have to pass the test of reasonableness to qualify for deduction.

2. Payments, made after a date to be notified, in amounts exceeding Rs 2500, otherwise than by a crossed cheque or crossed bank draft, will not be allowed as a deduction in computing the taxable profits. Any exceptions to this, if considered necessary, will be notified in the Income-tax Rules.

3. Entertainment expenditure incurred in businesses and professions out of entertainment allowance or 'expense accounts' operated by employees will also be brought within the deductible limit over entertainment expenditure.

4. The existing provisions limiting, in the case of companies, the deductible expenditure on providing perquisites to higher paid employees, will be extended also to non-corporate employers. Further, there will be a ceiling limit of Rs 1,000 per month for each employee.

5. The minimum penalty for concealment of income or wealth will be 100 per cent of the concealed income or wealth and the maximum, 200 per cent of the concealed income or wealth. (Presently, the minimum penalty is 20 per cent of the tax sought to be avoided, and the maximum, 150 per cent of such tax).

6. The time limitation for completing assessments in original proceedings for 1969-70 and later years will be reduced from four years to two years. Similarly, the time limit for claiming refunds will be reduced from four to two years.

Tax Rationalisation

1. A standard deduction will be allowed for the cost of maintaining motor cars, scooters etc., in computing the taxable amount of salary income. The standard deduction can be taken into account in calculating the tax to be withheld from salaries.

2. Interest received by a partner from the firm and by a co-operative society from any other co-operative society will not be subjected to deduction of tax at source.

Indirect Taxes

1. Excise duties on six new commodities, viz., confectionery and chocolates, embroidery, steel furniture, leather cloth, valves and transistors and crown cork have been pro-

posed at the following rates, but these will be confined to the organised sector.

Commodity	Rate
Confectionery and chocolates	80 paise per kg.
Embroidery and steel furniture	20 per cent ad valorem
Leather cloth	25 per cent ad valorem
Valves and transistors	Three rupees and one rupee respectively per piece
Crown cork	one paisa per piece

2. The basic excise duty on unmanufactured tobacco is proposed to be raised by about 10 per cent.

3. The basic duties on jute manufactures are to be raised by Rs 75 per cent tonne and on refrigerators and air-conditioners from 20 per cent to 30 per cent ad valorem.

4. The excise duties on sized cotton yarn and aluminium ingots and products are being rationalised to give relief to powerloom weavers and small ore-based producers of aluminium. The effective duty on aluminium is to be reduced by Rs 150 per tonne in the case of small ore-based producers.

5. The exemption from special excise duty on certain coloured varieties of printing and writing paper is to be withdrawn.

6. Certain non-recoverable duties on petroleum products are being raised, but these cannot be passed on to the consumer as they are intended to mop up over-recoveries in the hands of oil companies.

7. As a measure of administrative simplification, the existing system of physical control for purposes of assessment is to be dispensed with in the case of 53 out of 66 excisable commodities and replaced by a periodical check of the documents furnished by manufacturers.

8. The customs duties on whisky, brandy and certain other alcoholic liquors are to be raised by about Rs 9 per bottle.

9. The customs levies on cloves, cassia and cinnamon are being raised by Rs 12-13 per kilogram.

10. The import duties on chemicals, plastics, synthetic resins and articles not otherwise specified are being raised from 50 per cent to 60 per cent.

11. The customs duties on certain steel products are being raised from 15 per cent to 27½ per cent.

12. As a result of the increases in excise duties, the countervailing duties, particularly on lubricating oil and mineral greases, will also increase.

Post & Telegraph Tariffs

1. The postage on letters up to 15 grams is to be increased from 15 paise to 20 paise; for a letter card from 10 paise to 15 paise and for a postcard from six paise to 10 paise.

2. Postage for book, pattern and sample packets is to be raised from 10 paise up to 50 grams and five paise per 25 grams thereafter, to 15 paise and 10 paise respectively. Postage for book packets containing printed books and registered newspapers is also to be raised. Changes in the rates of parcels, registration fees and express delivery fee are also proposed.

3. The money order commission, now 15 paise per Rs 10, is to be raised to 20 paise per Rs 10 up to Rs 200 and 30 paise per Rs 200 thereafter. The charge for postal orders is also to be stepped up.

4. Postage charges for foreign mail are also to be increased.

5. The charge for non-press telegrams is to be increased from one rupee for the first eight words to Rs 1.20. The charge for greetings telegrams is also to be raised from 80 paise to one rupee and for press telegrams from 75 paise to one rupee for the first 50 words and for each subsequent five words from seven to 10 paise.

The above changes in the post and telegraph tariffs will take effect from dates to be announced later.

With a view to encouraging savings, the Finance Minister has announced the following measures:

(i) A new Public Provident Fund Scheme is proposed to be introduced in order to provide a new medium for long-term savings to all sections of the public, and to self-employed persons, in particular. The contributions will qualify for deduction from income for purposes of income-tax. The deduction will be to the extent of 60 per cent of the first Rs 5,000 and 50 per cent of the balance of the qualifying contributions. The maximum amount of contributions qualifying for the deduction (taken together with savings through life insurance policies, etc.) will be 30 per cent of the total income or Rs 15,000, whichever is less. The scheme will be operated through the agency of the State Bank of India and will be introduced after the necessary legislative authority is obtained.

(ii) A new tax-free 5-year Fixed Deposit Scheme will be introduced. A deposit of Rs 100 will amount to Rs 125 at the end of five years, the yield being 4.55 per cent compound. Investment will be permitted up to Rs 25,000 for individuals and Rs 50,000 for two individuals jointly. The scheme will be operated at the post offices from March 15 and from a later date at the State Bank branches also.

(iii) An additional maturity interest will be allowed on the 10-year and 12-year tax-free savings certificates at the rate of five rupees per certificate of Rs 100.

(iv) An additional bonus of five rupees will be allowed on a five-year Cumulative Time Deposit Scheme account of Rs 10 denomination, thereby raising the yield by about 0.3 per cent to 4.5 per cent.

(v) In all the above cases, certificates already purchased/accounts already opened will also be allowed additional interest/bonus on a graded scale.

(vi) The limits on investment in five, 10 and 15-year cumulative time deposit accounts are being increased from Rs 300 per month for an individual and Rs 600 per month for two individuals jointly to Rs 500 and Rs 1,000 respectively.

The next year's expenditure includes Rs 1,015 crores for defence, Rs 1,859 crores for the Plan and Rs 140 crores for building up a buffer stock of foodgrains. Compared to the revised estimates of the defence and Plan expenditure during the current year, the next year's expenditure on these two items is higher by Rs 45 crores and Rs 50 crores, respectively.

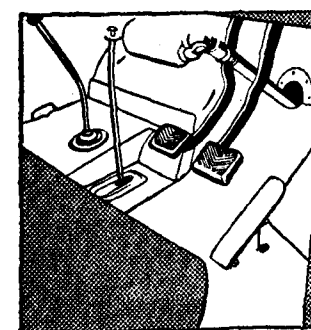
The traditional solemnity attached to the presentation of the central budget was rudely shattered this time by the unprecedented and unseemly scene created by a section of the opposition, comprising the SSP, the PSP and the communist parties. Protesting against the move of the Minister for Parliamentary Affairs, Dr Ram Subhag Singh, the previous day for closing the debate raised by the PSP member, Mr Nath Pai, on the installation of the Mandal Ministry in Bihar, this section of the opposition indulged in persistent barracking after the plea of Mr Nath Pai to reply of the Home Minister. Mr Chavan's observation in the Bihar debate and of several other opposition members for continuing with this debate with a view to allowing them to have their say, was rejected by the Speaker. The barracking was so noisy that for nearly 20 minutes, Mr Desai's speech was inaudible. The Finance Minister, however, braved the storm and continued his budgetary address. It was only when the noisy members left the House that calm was restored. The Swatantra Party, the Jana Sangh and the DMK dissociated themselves from the attempt of the PSP, the SSP and the communists to stall the presentation of the budget.

Earlier during the week, the Lok Sabha voted down the motion of the Jana Sangh member, Mr Balraj Madhok, seeking to censure the government on the Kutch issue. The railway budget was inconclusively debated. The Central Industrial Security Force Bill came in for a sharp attack from several members in the Rajya Sabha, the main criticism being that the bill was unnecessary.

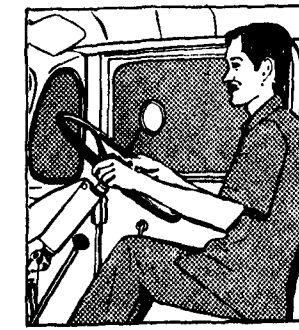
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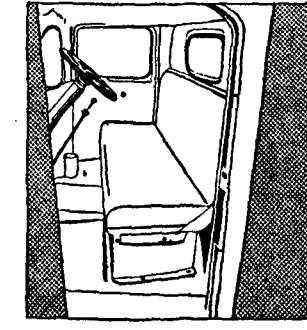
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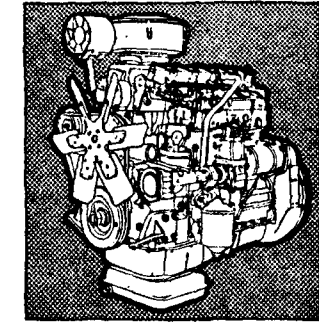
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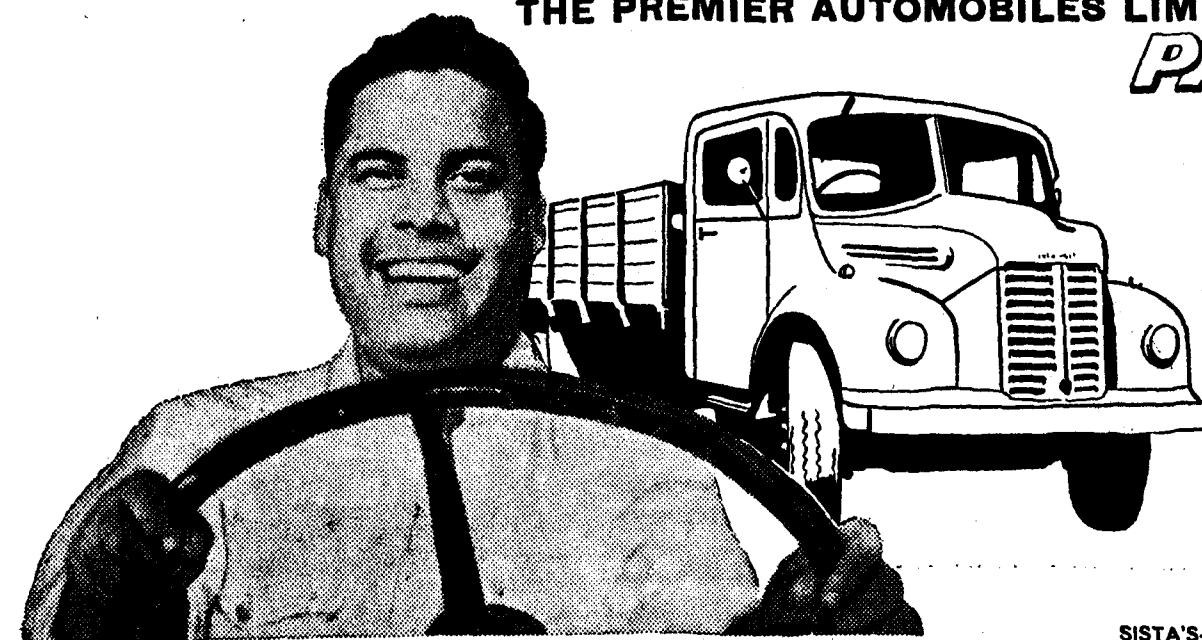


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WINDOW ON THE WORLD

Food Problems of Developing Countries—III

JOSSLEYN HENNESSY

WORLD POPULATION CONTROL

LONDON:

THE UNPRECEDENTED growth in world population expected in the next few decades will slow down sooner or later, but it is important to seek means to ensure that it slows as rapidly as possible because the food problem will be more difficult to solve if the population increase of the next century proves to be, say, 10,000 million rather than only 5,000 million.

In the long run the aim must be a stationary world population. Even a low growth rate would build up impossibly in a few centuries. The average birth rate of the more developed regions was 20 per 1,000 in 1960-65 and that of the less developed regions was 40.4. Both these averages will have sooner or later to come down to 10 which is the level towards which the death rate seems to be moving. The gross reproduction rates have recently been about 1.3 per cent in France, 1.8 per cent in the United States and more than 3 per cent in some developing countries. They must eventually come down to little more than 1 per cent. The implication is that restraints to keep procreation down will progressively have to be intensified even in most developed countries and intensified tenfold in virtually all the less developed areas.

The methods now in use to keep procreation well below the biological limit are: (1) abstinence, including late marriage, the rhythm method and at the limit coitus interruptus; (2) contraceptive methods; and (3) induced abortion and sterilisation. If a significant intensification is called for, neither abortion nor sterilisation are desirable on a large scale. Research is therefore likely to concentrate more and more on various methods of (1) and (2). To use any of these methods much more intensively than at present would raise a number of questions.

General Rule

Human behaviour in these matters has naturally been influenced both by cultural traditions and by moral and religious beliefs. How the major religious communities in the world are trying to guide their adherents in this often difficult field is therefore important. If there is any general rule it is probably that abstinence is considered the most acceptable method on moral grounds, while doubts, hesitation, or opposition are expressed concerning contraception and abortion, sometimes also coitus interruptus.

In practice, a number of countries pursue population policies that permit or even support contraception or abortion. That most people in some of the countries concerned belong to one or more of the major religious communities (Islam, Hinduism, Buddhism, Shintoism, and various Christian confessions) has not prevented this. Many individuals are, however, practising some of these techniques in conflict with the laws of their country or the guidance of their religious community, and this adds to the psychological difficulties by creating conflicts of conscience.

There is a special reason to mention the Roman Catholic Church because of its influence in many countries and because the Church has the problem of birth control under formal consideration at the present time. A commission appointed by Pope Paul VI studied the various aspects of the problem and sub-

mitted its conclusions. In October 1966 the Pope said that he would give these conclusions further study.

One can therefore expect new guidance from the Church. Many observers will agree with the OECD in hoping that this guidance will make it possible for Catholics to make their contribution to the necessary slowing down of population growth without conflict with the Church.

Sometimes certain methods, especially abstinence, are considered "natural" while others are considered more "artificial". These expressions should be used with care. There is an inborn, hence "natural", inclination of all living beings to procreate so that they multiply. If multiplication of the various species of animals and plants is kept within certain limits, it is because the species compete with one another for space and for food. The possibilities for life on the earth are not unlimited, and therefore the share of each species is limited by its competition with other species.

Limited Possibilities

For human beings the possibilities, though great, are also limited. Therefore, their numbers must be made to stop growing and to become virtually constant. If this is not to be ensured by high death rates as in the past, men must learn to keep their procreation down to a level that does not mean multiplication. This in fact is against human nature, as hitherto conceived. Human nature can, however, change and it doubtless will during the centuries to come, but the problem now to be tackled is how to reduce the rate of procreation radically not within centuries but within the next few decades. This being so, any course of action will to a certain extent be felt as "unnatural", i.e. artificial. In this situation it is probable that exclusive use of one method will do more harm to human nature than more flexible policies, which by allowing use of a variety of methods will reduce the psychological and other pressures. Education in birth control is as important as in all other spheres in developing countries. In countries where the standard of education is frequently still rather low it is particularly dangerous to increase social or psychological tensions by having recourse only to one method of birth control.

An increasing number of developing countries are trying to develop rational and conscientious policies to enlighten their populations and to help parents who want to limit the size of their families, but there is often a shortage of medical and paramedical staff and also of equipment. Developed countries can help with both.

Note: This is the third and final article reviewing the OECD's latest Report on "The Food Problem of Developing Countries". The first two articles were published in the issues dated February 23 and March 1.

II

EFFECTS OF U.K. ECONOMY CUTS

Aid to developing countries is one of the items of public expenditure affected by the Labour government's economic measures. For two years, the aid programme is to be held to its present ceiling of £205 million, and it will be required to absorb the full cost of devaluation.

The Overseas Development Institute (160 Piccadilly, London, W. 1.) estimates that this means that the real value of gross aid will fall by between 5 and 10 per cent, equivalent to a cut of £10/20 million, which may be compared with an overall cut in public expenditure of 2 per cent in 1968-69 and 2.7 per cent in 1969-70. It comes on top of the cut of £20 mil-

lion announced at the end of 1966, when aid was singled out for especially severe treatment.

The aid programme, therefore, has been required to carry its full share of the government's economies. In the political and economic circumstances surrounding the measures, this was doubtless inevitable. Party eyebrows would have been raised if the government had at the present time announced an increase in the sterling cost of the aid programme, which would have been needed to maintain its real value.

It is, however, only fair to the Wilson government to say that the cut in aid has been as small as could reasonably be expected, and that it has been carried out in a manner which will do the minimum long-term damage to the aid programme as a whole. The decision to maintain the programme's sterling value means that political momentum will not be lost, and amounts to a strong re-affirmation of the government's commitment to provide aid for economic development. Strategic withdrawal is not to be accompanied by withdrawal from the international aid effort.

Aid Programme

In particular, note that the government has confirmed its decision to allow three items, expected to contribute to an increase in overseas civil expenditure in 1968-69, as additional to the overall aid budget of £205 million. These are the UK's contribution to an international food aid programme, a possible increase in the UK's contribution to the International Development Association, and increased aid to Malaysia and Singapore to offset some of the loss caused by military withdrawal.

Treatment of these items as additional to the aid programme is justified for three reasons.

(1) An increase in the UK subscription to the IDA can only come as part of a negotiated increase in subscriptions from all the developed countries. The flow to the UK in export orders from these increased funds is likely to exceed the increase in the UK contribution. If the UK were to offset increased subscriptions to the IDA with cuts elsewhere in the aid programme, there would be a windfall gain to the UK from international aid without any corresponding UK contribution. The increase in the UK subscription is likely to be between \$20 million and \$32.5 million (£8 to 14 million), but this increase will not take full effect in 1968-69.

(2) The food aid commitment is the UK's contribution under an international agreement to provide 4.5 million metric tons of grain a year for three years. The agreement arose from the Kennedy Round negotiations in the GATT, and the UK's contribution should be seen as part of the price paid for the advantages that the UK gained. The cost in 1968-69 is expected to be £6 million.

(3) Increased aid to Malaysia and Singapore is in effect only a transfer from the defence budget, and should be seen in the context of an overall cut in the UK's contribution to these two countries' economies.

The government calculates that the specific costs to the aid programme as a result of devaluation will be about £10 million, but this calculation appears to leave out the indirect loss of value resulting from increases in the prices of British goods bought with aid funds. On the other hand, since the calculation refers only to gross aid, it leaves out the gain to developing countries in repayments of past loans denominated in sterling.

The purchasing power of UK aid was automatically reduced by the devaluation of sterling. UK aid spent on goods and services outside the UK now buys 14.3 per cent less than before. Assuming that about £65 million is involved, the loss is approximately £9 million. (This calculation is not affected by the fact that some aid is spent on local costs by recipients which devalued in line with the UK, since the loss in foreign exchange for imports from countries other than the UK is the same, whether the recipients devalued or not).

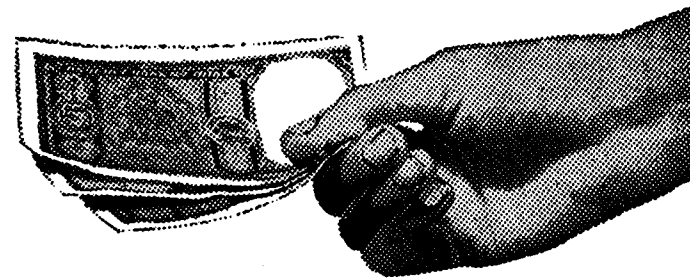
Aid spent on British goods will also buy less than before,

because devaluation will lead to a rise in British prices, expressed in sterling. By the end of 1968, prices are expected to have risen by 3 to 7 per cent, which is equivalent to a loss of £4 to 10 million.

Because contractual obligations to international agencies are expressed in dollars, the sterling equivalent of British subscriptions—e.g. to the Asian Development Bank—is bound to rise by 16.7 per cent, and this amount, say £3 to 4 million, will have to be taken from other parts of the aid programme. Voluntary contributions, however, will be kept constant in sterling terms.

The burden of repayments and interest on past loans, which are denominated in sterling, will decrease by 14.3 per cent for those countries which, like India, did not devalue. This, of course, only affects countries which have received

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THE INDIAN INTERNATIONAL TRADE & INDUSTRIES FAIR



AN EASTERN ECONOMIST SUPPLEMENT

The Madras Fair

THE INDIAN International Trade and Industries Fair (IITIF) now being held in Madras city should be considered an outstanding event in that part of the country. A fair of this kind, claimed to be the biggest in Asia and conducted for the first time in this country outside Delhi, has many advantages and educative value. For a time, it was thought that the project was ill-starred, the convening of the fair being thought of first in 1962 in Bangalore. It had to be postponed because of the Chinese aggression. The central government later thought it advisable to hold the fair in Madras. But the Indo-Pakistan conflict and later the preoccupation of the political parties and the governments with the last general election necessitated a further postponement. The uncertainties created by two postponements and the change of government in Madras gave rise to the fears that the arrangements for conducting the fair on the desired lines could not be completed in time for the inauguration in January this year. There were also serious problems relating to the active participation in the fair by foreign countries. In spite of the visits by many delegations from this country, some western countries such as the USA, Japan and the UK could not be persuaded to take part in the fair. Ultimately, the east European countries came in a big way along with West Germany, Italy, the USSR, Ceylon, Thailand and many others. Until the arrangements were finalised for the inauguration of the fair by Mr V. V. Giri, the Vice-President, there were doubts about the fair starting on the stipulated date, not to speak of the finances

being found. But later developments have come about in a dramatic manner and in spite of the many shortcomings and the lack of experience of the sponsors, the IITIF has been a complete success.

Whatever might have been the initial handicaps and hurdles, the fair, which is reckoned to have cost about Rs 20 crores in the aggregate, is an eye-opener in many respects. The central government extended assistance to the Madras government with a crore of rupees. This amount has been utilised for improving transport facilities and creating amenities. The members of the All-India Manufacturers' Organisation (AIMO) are reported to have made donations. The central government also gave a loan of Rs 10 lakhs to the fair authorities. Quite sizable expenditure was incurred on the construction of pavilions, each costing between Rs 2 lakhs and 15 lakhs without taking into account maintenance, exhibition and other expenses. Such a heavy expenditure in conducting trade fairs might be considered colossal in the Indian context. There will, however, be a considerable amount of salvaging as in many pavilions construction materials have been used in a manner that, after dismantling, they can be utilised for other purposes. The most important point to be borne in mind is the development of a 200-acre site, which now constitutes Anna Nagar and which can be used for similar purposes in the future. The expenditure would, however, be wasteful to some extent if the proposal to demolish the foundations of

pavilions, after the conclusion of the fair, was implemented and a housing colony in the same area was promoted. Taking into account the unexpectedly keen interest shown by the public in the fair there is every justification for using the same site for identical purposes in the coming years. In Delhi, the exhibition grounds on Mathura Road have been reserved for facilitating the conduct of fairs of different types periodically. The same procedure should be followed by the Madras government as well.

Keen Visitors

By the end of February it had been reckoned that nearly two million people had visited the fair. Those in charge of the pavilions had to contend with huge crowds though they were not quite sure that the visitors were useful from their point of view. But what is really noteworthy, and indeed gratifying, is the awakening in the minds of the public and the anxiety on the part of those, literate and illiterate, to know what was happening and to find out what the Indian and foreign participants had to exhibit. At one stage, it was felt that an entrance fee of a rupee per head was rather stiff and the visitors may not find it possible to find the money for taking advantage also of the amenities and side attractions. The fears in this regard have proved incorrect. It will be no exaggeration to say that the visitors have forked out Rs 1 crore and more for mere sight-seeing and learning. It is not only the citizens of Madras that have thronged to the fair. What is surprising is the large arrivals by buses and the railways, from the neighbouring states and from different parts of Madras state. These visitors should have spent sizable amounts. This provides a clear indication of their keenness to have a good idea of the progress recorded by industrial India and of the gap that exists between it and the developed foreign participants. Even if trade enquiries did not materialise to a great extent because of the recession or other factors, this development by itself augurs well for the future.

Madras Fair Will Stimulate Production

H. BALARAMA RAO

AN EXHIBITION provides an opportunity to every manufacturer to put on display his best product and, when there is the added incentive of effecting a sale of the product on display, the participant does his best not only to put up a good display but also looks to the sales promotion aspect. In the fair campus were assembled a wide range of manufactured goods. Each participant vied with the other in presenting his exhibits in a manner that would attract a large number of visitors to his pavilion so that both the consumer and the trade might see what the manufacturer produced.

It is common knowledge that no other form of publicity is a substitute for a visual presentation of a product. So, when in a pavilion a product is on display and there is a guide briefed to describe the uses to which the product could be put and its superiority over similar products produced by the manufacturers in the same line, the consumers' curiosity is aroused and effective interest in the product is created. The trader who brings the consumer and the manufacturer together also gets an opportunity to study the reactions of the potential consumer and knows the capacity of the respective manufacturers and the quality of the goods produced by them. This ultimately paves the way for the development of a market for a product which, up till then, had been comparatively little known to the consumer.

The fair, therefore, will act as a stimulant not only to

Even in regard to the commercial side, it has been claimed that the foreign participants have been able to conclude large contracts for the sale of machinery and other equipment. Concerns in the private sector which accounted for 100 pavilions, out of a total of 162, had the advantage of forging new relations with foreign countries and the visit of the delegates who are now attending the UNCTAD session in New Delhi, heightened the importance of the fair. The participants from this country were also able to develop new contacts within the country while the large representation of central government undertakings and the majestic state pavilions presented a vivid picture of a vibrantly developing India. A full account of what transpired, when the fair remained open, will become available only after some time. But it can be safely said that the misgivings of the sponsors of the fair about its financial viability have been removed by good gate collections and the large participation. The seminars held in the specially constructed auditorium and exhibition of films of special value should create considerable public interest which should be reflected in time in a large demand for many types of consumer and producer goods. It would not be incorrect to say that the huge expenditure incurred on the fair is developmental in character, besides providing lucrative local employment even if it be for a short period.

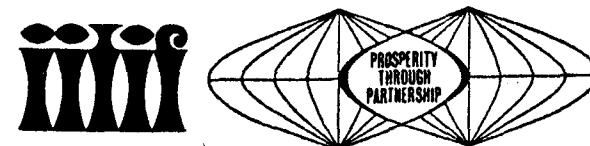
There will no doubt be an expansion of trade between our country and the communist countries as it is increasingly recognised that there could be larger sales of sophisticated equipment to this country against exports of light engineering goods and other non-traditional items. It has been reported that there are already good enquiries for the products of the automobile ancillary industries which are produced in large quantities in Madras and Mysore states. There have also been many enquiries for manufactured goods from the Middle East. If in the process, the two-way trade could be enlarged between all countries "prosperity through partnership," which is the motto of the fair, would have assumed some significance.

Mr H. Balarama Rao is the Executive Secretary of the Indian International Trade and Industries Fair.

the producer but also to the consumer. Thus when so many manufacturers are assembled in the same spot it gives each participant an opportunity to study the product of the other and see to what extent he can economise his cost of production by buying certain components from others and devote his time and money to concentrate only on those items which he can with profit manufacture in his own factory. Each manufacturer will tend to concentrate on certain special items for which he is best equipped and buy other components from the others who have specialised in those particular fields. This will ultimately result in a more sophisticated and broad based industry and help to reduce the cost of the product which in time will enable the manufacturer not only to compete effectively in his own home market but also enter the export market.

It is said that politics divides and trade and commerce bring countries together. The assembly of so many participants with different ideologies, different backgrounds in one place illustrates this. Even in the case of the various states in our country, whatever border or language disputes they may have, in the fair campus they forget all such differences.

OVER 20,00,000 have already seen the



INDIAN INTERNATIONAL TRADE AND INDUSTRIES FAIR 1968
(Sponsored by All India Manufacturers' Organisation)
Annanagar, Madras-30.

from 21st Jan., 1968 to 11th March, 1968

Have you visited the Fair?

A Kaleidoscopic view of the Indian products being exported all over the world.

A vast panorama of Indian manufactures—from a pin to a ship.

An ideal opportunity to see the stupendous progress in the scientific and technological spheres of friendly countries.

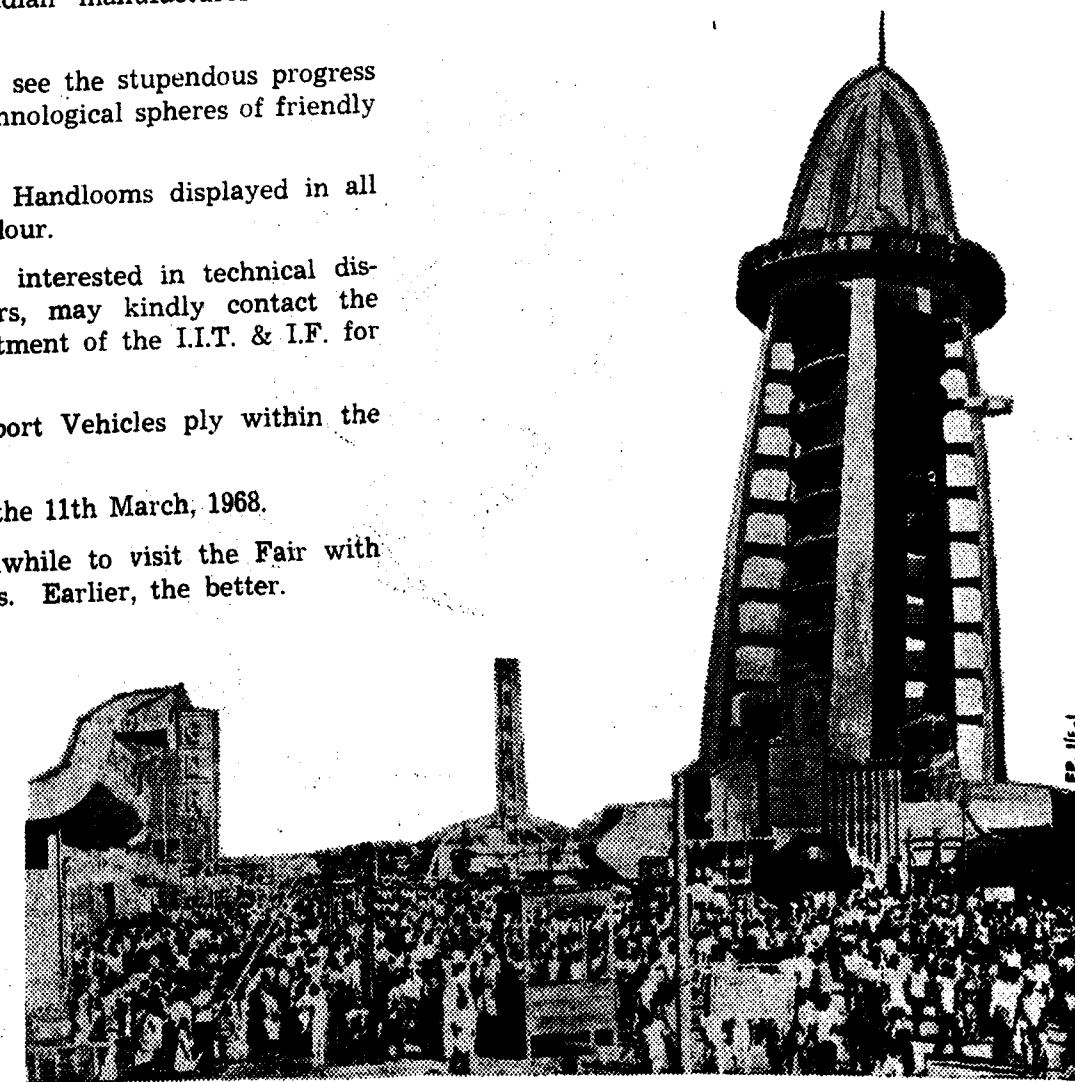
Indian Handicrafts and Handlooms displayed in all their colours and splendour.

Entrepreneurs or those interested in technical discussions with exhibitors, may kindly contact the Public Relations Department of the I.I.T. & I.F. for assistance.

Decorated State Transport Vehicles ply within the Fair grounds.

The Fair concludes on the 11th March, 1968.

You will find it worthwhile to visit the Fair with your family and friends. Earlier, the better.



The visitors to the fair get an opportunity of seeing at first hand the progress achieved by each state in various sectors during the post-Independence period and compare the achievements of their own states.

A sort of healthy competition, therefore, is created among the states, the less developed trying to catch up with the comparatively advanced states, and the developed state trying to keep its present position. Otherwise, each state is likely to be frog in the well with a feeling of complacency with what it has been able to achieve. Thus the fair is bound to bring the industries and traders of the various states in our country closer together, breaking many barriers.

There is yet another aspect which may also have a significant impact on our industries. In this fair, our manufacturers had an opportunity of seeing the products of about 20 other countries. Some of the products put on display by foreign participants were also manufactured in our own country. So our technicians will be able to see what improvements they can effect in their designs in order that their products may be acceptable to foreign manufacturers.

One also notices that some of our indigenous products are in some respects even superior to similar products put on display by foreign participants. This should prove a big morale booster to our designers and technicians, thus giving them self-confidence. The practice so far in this country for industrialists, who wish to set up new industries, has generally

been to seek technical know-how from foreign manufacturers and enter into technical collaboration agreements with foreign firms many of whom perhaps in their own countries are not of that standing to be in a position to give technical advice to others. Yet unconsciously costly collaboration agreements are entered into. When, therefore, entrepreneurs, designers, technicians and others see the quality of their own products, I hope they will realise that there is adequate talent in the country which remains to be tapped yet and that there is no need any further to continue to hanker for foreign collaboration in each and every industry however small it may be. In fact, to many a visitor this fair has been in a real sense an eye-opener.

To sum up, therefore, it can be confidently expected that the Madras fair will be the harbinger of a bright future for our country. No visitor, who has visited previous exhibitions in this country, will fail to notice the significant progress we have made in the matter of display. No two pavilions were alike. Each pavilion was attractive in its own way and holds the interest of the visitor.

This fair is bound to stimulate production in every field, increase indigenous demand for our products and open new markets abroad. It is also bound to bring us closer together with other participating countries, thus promoting further exchange of ideas and goods to the mutual advantage of every one concerned, justifying the theme of the fair, "prosperity through partnership".

Prosperity Through Partnership

K. S. RAMANUJAM

FOR SOUTH India as a whole, the contribution of the Indian International Trade and Industries Fair, now being held in Madras city, is immeasurable. Its impact on the future course of industrial development in this part of the country is likely to be significant. For, it has been a great exhibition project in detail the immensity of this country's industrial achievement during the last two decades. The theme of the fair "prosperity through partnership" is quite apt at this time when UNCTAD-II is deliberating in the capital. If exhibitions, in the modern sense of the term, are an extension of the market place, the Madras fair has contributed in no small measure to make known, in a very purposeful manner, the industrial strength of our country today.

The fair has been able to project an imposing image of modern industrial India and its vast export potential. The way it turned out to be, it would be appropriate to call it Expo India-1968.

There were broadly five sectors in the fair. The International sector of the fair housed the pavilions of the governments of 17 countries, including the USSR, Italy, Federal Republic of Germany, Poland, Hungary, Romania, Czechoslovakia, German Democratic Republic, Bulgaria, Yugoslavia, the United Arab Republic, Kuwait, Ghana, Uganda, Thailand, Nepal, Ceylon etc. The USSR participated in the fair in a big way—exhibiting machines and equipment, necessary for the young developing countries for creating key branches of the national industry and agriculture. Besides metal-cutting machine-tools and instruments, the Russian pavilion exhibited various machines, drilling units, textile, printing, photographic and cine equipment. There were also exhibits of rolled steel, chemical fertilisers and asbestos. Tractors, different types of lorries and dumpers were displayed in an open ground.

The second sector consisted of the pavilions in which were housed almost every one of the states in this country. They vied with one another to attract the visitor so as to demonstrate the immensity of progress made by each during the last 20 years. They displayed prominently all their raw materials and manufactured goods which are being exported to earn valuable foreign exchange.

The third sector consisted of central government under-

takings displaying their growth and contribution to the country's progress. The Hindustan Steel pavilion served to educate the visitor how the stress on steel in the first three plans was fully justified. The Hindustan Machine Tools has been a pioneer institution fulfilling this country's growing needs for machines which build other machines to serve every kind of industrial need. The Indian Airlines indicated that it was keeping in step with the jet age and its challenges. The Bharat Electronics exhibited its determination to look after the needs of sophisticated electronic equipment for the defence of our borders. The Indian Telephone Industries recorded its heartening performance in the telecommunication field. Heavy Electricals claimed it had turned the corner and that it would no longer be a burden on the country's resources. The Neyveli Lignite Corporation demonstrated how it had been a life-saver for the State of Madras during many critical periods of power shortage during the last few years.

The Private Sector

The private sector which formed the fourth important sector of the fair was a colossal display of entrepreneurship, big and small. After going round many pavilions, Mr H. Vollrath, Chairman of a fourteen-member delegation of Indo-West German Engineering Export Promotion project, said he was highly impressed with the diversity and quality of Indian manufactures which, he felt, were comparable to the best from any part of the world. He added "What we have been able to understand of the diversity of Indian manufactures during the last few days of our going round the Madras fair, we would not have been able to know in a whole year". "India can do it" was the theme of the private sector.

The fifth sector dealt with entertainment. It was not much of an attraction for most of the visitors since they were interested in going round the pavilions and getting themselves acquainted with "Modern India".

The Visweswarayya Tower, in memory of the founder of the All-India Manufacturers' Association, sponsors of this fair, was a prominent structure at the fair site and was a great attraction. It enabled the visitor to have a good overall picture of the vast and spacious fair of over 160 different pavilions spread over an area of 200 acres.

The Participants

It will not be possible, within the compass of this supplement, to comment on each and every pavilion. Some comments are offered in the case of a few of them.

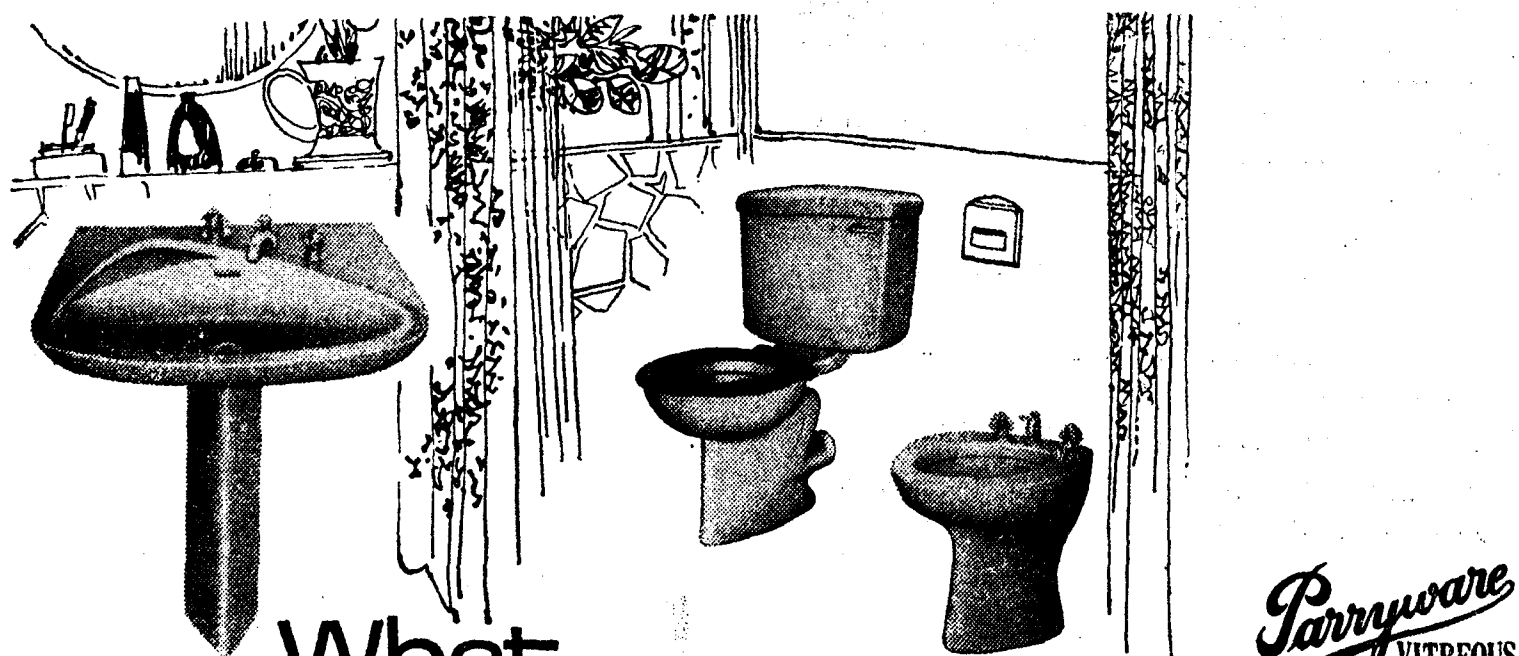
All India Automobile Ancillary Industries Association put up an impressive show at the fair. Mr M. K. Raju, president of this association, told newsmen at a press conference held at the pavilion recently: "The Indian automobile ancillary industry continues its forward march. Production has increased by 10 per cent from Rs 614 million in 1965 to Rs 820 million in 1966. The export performance is equally spectacular—a tenfold increase in five years. Exports have crossed the ten million mark and the automobile ancillary manufacturers are finding receptive markets in west Asia, south-east Asia and Europe. With the new drive the industry has launched, there is no reason why it should not attain its export target of Rs 100 million during the fourth Plan."

Easam Group of Madras, through photographs and exhibits, showed the rapid strides that it has taken during the last two decades. Their contribution in the field of electricity has been

significant. Two large charts in its pavilion showed that the group had so far produced 20,000 units and 4.5 million KVA. Amongst their customers are all the state electricity boards of this country.

Binny's pavilion had been designed to present vividly its achievements and aspirations. Mr R. B. Kernick, Director of this group told pressmen that Binny would be in the market soon with its ready-made garments of cotton and Terene. The group also proposes to market permanently pressed trousers for the first time in this country. The demand for such garments is large both within the country and abroad. The planned capacity of this unit will be around 5,000 garments a day and the annual turnover, when in full operation, will be about three crores of rupees.

Amalgamations, the well-known industrial group of south India manufacturing a wide variety of automobile ancillaries and other engineering products, participated in the fair in a big way. Its pavilion enabled even a casual visitor to get an intimate picture of its many-sided achievements during the last

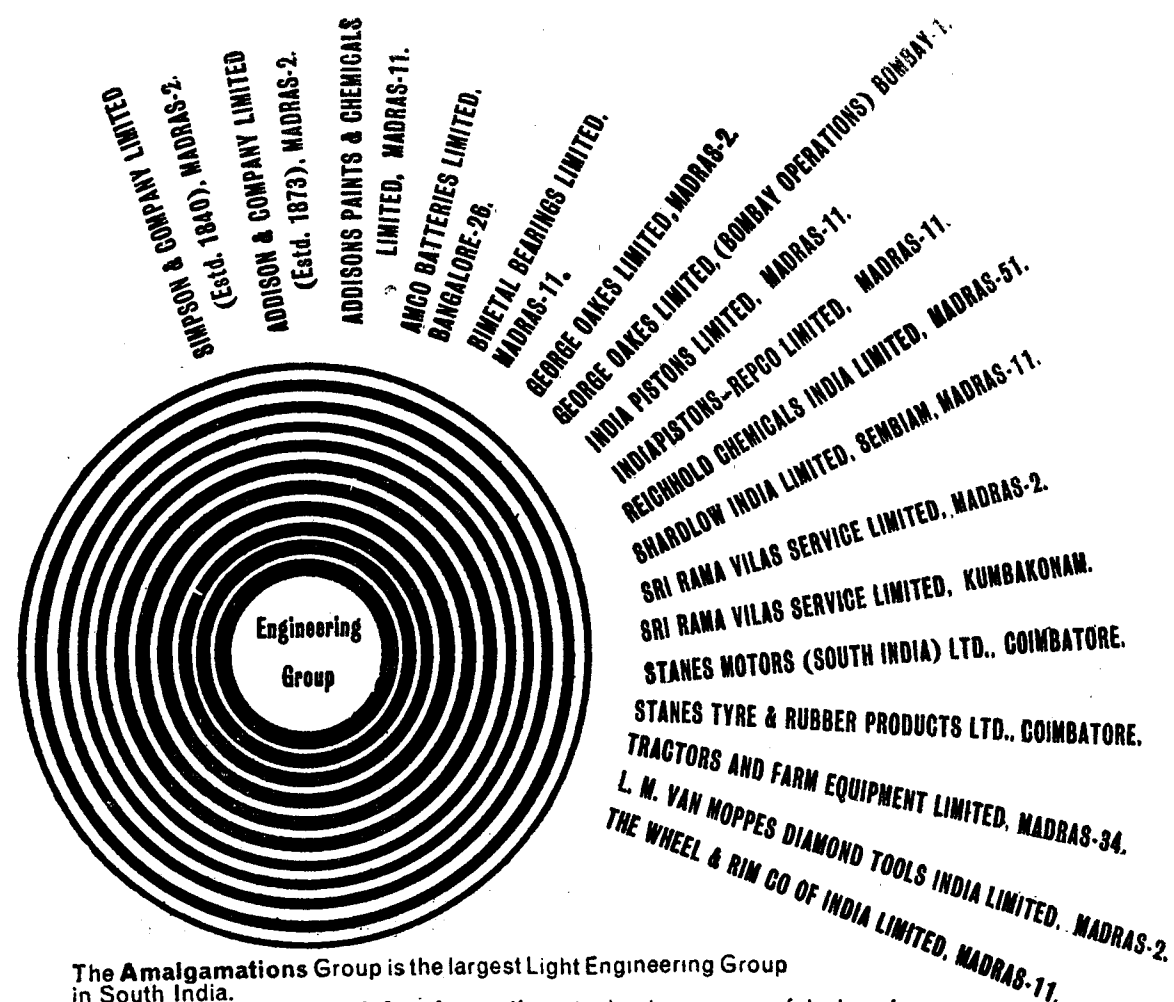


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The Amalgamations Group is the largest Light Engineering Group in South India.

The Corporate strength of Amalgamations is due to a successful plan of acquiring or constructing a network of manufacturing units and progressively rationalising them to be complementary units of production in related fields of activity.

Non-Engineering Group

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THE UNITED COFFEE SUPPLY COMPANY LIMITED, COIMBATORE.

WALLACE CARTWRIGHT & CO. LIMITED, 55/56, St. James Street, LONDON S.W. 1.

Total Number of Employees: About 14,000
Bankers: The Central Bank of India Limited, Madras-2.

Advertising Consultants:
THE MADRAS ADVERTISING CO. PRIVATE LTD., MADRAS-2.

The Group Manufactures Automotive and Industrial Diesel Engines, Agricultural Tractors and farm implements, Castings, Stampings, forgings, Engineers Cutting Tools, spares and ancillaries such as pistons, piston rings, bimetal bearings, flywheel ring gear as original equipment or for use in the automobile and other industries, lead acid batteries for transport, telecommunication and industrial uses, Builds coaches and bodies, Fabricates mechanical light engineering specialities, Formulates Synthetic resins, pigments, lacquers, paints, colours, varnishes, emulsions, enamels, Operates transport and passenger services, Produces tea and coffee, Publishes an evening newspaper.

The Group's Industrial Estates cover over 150 acres and provide as many as 17 separate manufacturing units using latest equipment and modern techniques. Its valuable experience of cost and quality considerations over many years in the domestic market enables the Group to export a wide range of first class products which have been accepted by discriminating buyers in over forty seven countries in the world.

AMALGAMATIONS PRIVATE LIMITED

202, Mount Road, Madras-2.
and subsidiary Companies
(Unit Companies of Simpson Group Industries)

two decades. During this period its activities increased a hundred times due to the imaginative and farsighted leadership of the founder, the late S. Anantharamakrishnan. The group employs over 15,000 workers who are among the best paid in the country.

Crompton Engineering Co. (Madras) put up a stall which showed the role played by it in the field of industrial and railway electrification, transmission lines, sub-stations and power stations.

Hylam Ltd, of Hyderabad which is a pioneer in thermo-setting plastics showed a colourful array of exhibits in fair representing the application of Hylam laminates in various industries such as electronics, telephones, heavy electrical equipment, steel, paper making, textiles etc.

Best and Company (P) Ltd, of Madras displayed in its pavilion the numerous products manufactured by it including Worthington-Simpson pumps, Beacon dynamos, starter motors and Evans lifts. It set up an Evans lift in the Panch Sheel Tower with a capacity of 33 passengers.

The group pavilion of Tube Investments of India Ltd, Carborandum Universal Ltd and Coromandal Prodorite P. Ltd was educative. The theme of the pavilion was "partnership for progress". The group is a leader in this country as a manufacturer of bicycles, bonded and quoted abrasives and a wide range of chemical resisting cements.

EID Parry pavilion attempted to educate the visitors about its various activities including manufacture of confectionery, ceramicware, sugar, fertilisers etc.

The Indian Airlines had an outstanding pavilion which showed how it was keeping pace with the jet age with the assistance of Caravelles and other modern aircraft. A starry night sky with a Caravelle jet flying in a simulated atmosphere attracts the spectator. The twinkling stars were created by about 1500 little prism-bulbs with a complicated electrical system behind the scenes.

The Travancore Rayons pavilion, unusual in shape and exquisite in design, displayed a variety of interesting exhibits about rayon yarn and the trayophane packaging film. Mr M. Ct. Pethachi, Managing Director, explained to the press its expansion plans intended to double the pulp plant output and the increase in the trayophane film capacity by another five tonnes a day at a cost of Rs 2 crores.

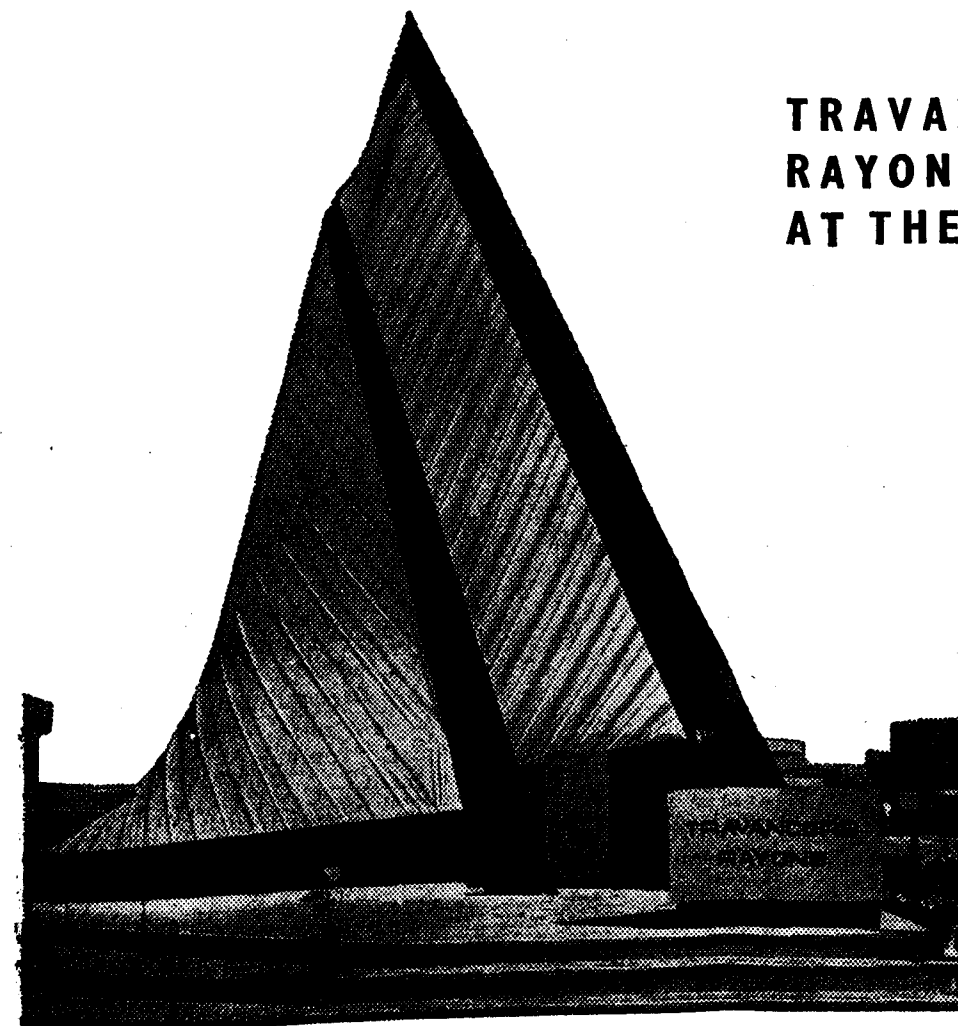
The Imperial Tobacco Co. of India Ltd had a pavilion which attempted to describe how important a part tobacco played in the country's economy.

Ashok Leyland pavilion displayed a selected range of Ashok Leyland high power vehicles and industrial engines including a new marine engine.

PSG pavilion was novel because of its structural and architectural features. It displayed a very wide variety of electric motors and other equipment.

The Heavy Electricals (India) Ltd, Bhopal, highlighted the significance of electric power in the development of the nation. Its role in making available indigenously the basic power plants required for generation, transmission, distribution and utilisation of power was effectively portrayed.

TRAVANCORE RAYONS PAVILION AT THE I.I.T.I. FAIR



Our pavilion in Block 29, plot C, at the Indian International Trade & Industries Fair, Madras, symbolises the strength of Trayons Trayophane and the colourful beauty of Rayon yarn we manufacture.

Visit this interesting pavilion to know all about Trayons Rayon yarn—the wonderful fibre, and Trayons Trayophane—the versatile packaging film.

THE TRAVANCORE RAYONS LIMITED
151, Mount Road, 3rd Floor,
I.O.B. Building, P.B. No. 2711, Madras-2
Factory: RAYONPURAM, Kerala.

LIST OF PARTICIPANTS

1. Govt. of Pondicherry.
2. Heavy Engineering Corporation.
3. Atlas Cycle Industries.
4. Hindustan Steel Limited.
5. Shipping Corporation of India.
6. Heavy Electricals, Bhopal.) Bharat Heavy Electricals.)
7. Indian Oil Corporation.
8. Government of Mysore.
9. Government of Kerala.
10. Government of Orissa.
11. Khandelwal Manufacturing Co. Ltd., Bombay.
12. Government of Uttar Pradesh.
13. Government of West Bengal.
14. Ministry of Defence.
15. Enrico Longinotti.
- 15 A. The Chemical Construction Corporation, New York.
16. Kuwait.
17. Italy.
18. Snam Progetti S. P. A.
19. United Arab Republic.
20. Czechoslovakia.
21. Government of Nepal.
22. Uganda (Lint Marketing Board).
23. Desma (W. Germany).
24. Indian Leather Fair Society.
25. Ghana.
26. National Council of Youth of India.
27. Foster-Finch Sales & Services (UK).
28. Federal Republic of Germany.
29. Romania.
30. Tayabi Bucket Factory, Bombay.
31. Vicon (The Netherlands).
32. N. G. E. F. Ltd., Bangalore.
33. German Democratic Republic.
34. Bulgaria.
35. Hungary.
36. Poland.
37. Yugoslavia.
38. Ceylon.
39. Government of Andhra Pradesh.
40. Amalgamations (Pvt.) Ltd., Madras.
41. Government of Gujarat.
42. Indian Telephone Industries.
43. U. S. S. R.
44. N. L. C.
45. "FACT".
46. Golden Tobacco Co., Bombay.
47. Government of Assam.
48. Delhi Industries Pavilion.
49. A. B. Printing Equipments, Sweden.
50. Walchand Group of Companies, Bombay.
51. Kirloskar Oil Engines Ltd., Poona.
52. Cement Manufacturers Association.
53. Dorr—Oliver (India) Ltd., Bombay.
54. Ministry of Education.
55. Government of Maharashtra.
56. Department of Atomic Energy.
57. United Commercial Bank.
58. State Bank.
59. Unit Trust of India, Bombay.
60. Air-India.
61. Alvin Coredrill Ltd., Thana.
62. Mafatlal Group of Industries, Bombay.
63. Government of Madras.
64. Indian Airlines.
65. Poombukar.
66. Ministry of Commerce.
67. Ministry of Information and Broadcasting.
68. Ministry of Food & Agriculture.
69. Ministry of Labour.
70. Ministry of Irrigation & Power.
71. Shreeniwas Group of Industries, Bombay.
72. Syndicate Bank Limited.
73. Bank of India Ltd.
74. Bank of Baroda Ltd.
75. Indian Bank Limited.
76. Canara Bank Limited.
77. Thailand.
78. Voltas Limited, Bombay.
79. Easun Group of Companies, Madras.
80. Indian Machine Tools Manufacturers Association.
81. Hindustan Machine Tools Ltd.
82. Tube Investments of India Ltd.
83. Ministry of Railways.
84. Crompton and Best & Company.
85. "MICO".
86. Sigil India Services (Pvt.) Ltd.
87. West Bengal Pharmaceutical Committee.
88. H. T. C. Diesel Engines Ltd., Bombay.
89. P. S. G. Industrial Institute, Coimbatore.
90. Seshasayees, Madras.
91. Escorts Limited, Faridabad.
92. Batliboi & Co. Pvt. Ltd. Bombay.
93. Jammu & Kashmir.
94. Madras Aluminium Co. Ltd.
95. Imperial Tobacco Co. Ltd.
96. All-India Automobile Ancillary Industries Asscn.
97. Hindustan Teleprinters Ltd.
- 97 A. Hindustan Antibiotics Ltd.
98. Indian Drugs & Pharmaceuticals, Ltd.
99. Gwalior Rayons.
100. Bata Shoe Co. (Pvt.) Limited.
101. Sen & Pandit Limited.
102. International Corporation, Hong-kong.
103. Amrutanjan Limited.
104. Merck Sharp & Dome.
105. Britannia Biscuit Co. Ltd.
106. East Coast Gas Co.,
- 106 A. International Design Centre.
107. Standard Batteries.
108. N.E.I. Group of Industries, Bombay.
109. Sudarsan Trading Co., Madras.
110. Travancore Rayons Ltd.
111. Hindustan Photo Films Ltd.
112. Hindustan Aluminium Corpn.
113. A & F Harvey Limited.
114. Ganapathy Engineering Co.
115. Chennimalai Weavers' Co-optive. Prodn. & Sales Society Ltd.
116. Vadilal Embroidery Unit & Ashok Velvet Manufacturers.
117. Madras Palayaket (Pvt.) Ltd.
118. Arts Centre.
119. Fancy Corporation.
120. Savani Transport, Bombay.
121. Alembic Chemical Works.
122. Handloom House.
123. Sadhana Textiles.
124. Aditya Textiles.
125. Radha Silk Emporium.
126. Tamilnad Handloom Weavers' Co-optex.
127. Vertex.
128. Shanthi Gold Covering Works Ltd.
129. Murphy India Ltd.
130. Delhi Cloth Mills.
131. Shaw Wallace Co.
132. K. N. Chadda.
133. Electrical Corporation.
134. Mohamed Ebrahim & Co.
135. T. K. Murthi.
136. Mohammed Aboo Backer.
137. E. I. D. Parry Ltd.
138. Tyre Industries.
139. Bush Radio.
140. Chennimalai Industries.
141. Union Carbide (India) Ltd.
142. Indian Coffee Board.
143. Amarjyothi Traders.
144. Indian Medical Practitioners Co-op. Pharmacy & Stores Limited.
145. Bharat Commerce & Industries.
146. S. V. Products.
147. Binny & Co.
148. Foods, Fats & Fertilisers Limited.
149. I. A. E. C.
150. Madras Fair Committee.
151. Hivelm Industries (Pvt.) Ltd. & Madras Industrial Estates Assn.
152. Jay Engineering.
153. Prem Group of Industries.
154. Life Insurance Corporation India.
155. K. C. P. Limited.
156. Madras Fertilisers.
157. J. N. Marshall & Co.
158. Nathani Steel Yard.
159. Ashok Leyland Limited.
160. Needle Industries Ltd.
161. Bharat Electronics.
162. Universal Radiators.

aid in the form of loans rather than grants. Aid repayments from all countries to the UK are nearly £60 million a year, so the gain to such developing countries will be about £8.5 million.

The net fall in the value of aid as a result of devaluation, therefore, will be £8 to 14 million. At a time when the developing countries are finding it harder and harder to secure

adequate amounts of aid to support their development programmes, this fall will be widely regretted. But the political commitment which is implicit in the decision not to reduce the sterling value of aid gives ground for supposing that a restoration of the full value of aid, and then an increase, will be possible once the foundations for a resumption of the UK's own economic progress have been laid.

European Concern Over US Economy Measures

E. B. BROOK

VIENNA :

EUROPE IS growing increasingly nervous about the effects on it of US economy measures. This nervousness has many aspects; the likely direct effect of the American budget proposals, especially the taxation of tourist spending and the complete moratorium on American investment in continental west Europe. To some extent the original European soreness over these measures when they were announced at the beginning of the year has been dispelled by the domestic tax proposals in the Johnson Administration budget of January 29, but the anxiety remains still.

Anxiety is there because, as time passes, administrative and technical economy measures affecting Europe begin to pile up. The US Treasury and the banks have begun to follow up the budget. Almost simultaneously, an American drive in Europe to raise investment and investments by Europeans in US stocks has become evident just as the European markets have begun to find their domestic investors increasingly timid of European paper. Almost everywhere in western Europe the current value of governments' paper is falling. Not least is Europe deeply concerned at how much more is to follow, how long US austerity is likely to last and especially over the ultimate international economic results of the conflict in Vietnam.

The latest blow has been a US Federal Reserve Board restriction on overseas investments which includes a temporary ban on purchases of equity investments in west European corporations by overseas affiliates of American banks and by American investors without prior approval. No approval will be given, it has been made clear, unless it has been clearly shown that an investment will not be detrimental to the United States' balance of payments.

This pronouncement in effect suspends the provisions of a 40-year old US Act which permits a foreign affiliate of an American bank to invest in foreign securities even though the US bank itself is barred from such investment.

Ultimate Impact

The ultimate impact on Europe may be considerable because it has frequently been the practice of the affiliates of US banks to buy minority holdings in European companies with the idea of eventually expanding their holdings in the firm and providing funds for its expansion. The size of this withdrawal of development capital from the European investment pool is emphasized by the fact that over 50 large American corporations have been operating in European investment markets for at least 15 years, roughly the period of the European Common Market.

Under the new regulations, also, US investors and their affiliates will need Federal Reserve Board's approval for purchases of overseas securities in three areas not previously under the Board's control. These are stock purchases made as part of an extension of credit, acquisition of less than 25 per cent of the stock of a foreign bank and share purchases of less than 200,000 dollars, if the transaction helps US commerce. The Board will also now have to approve instances where a US firm or bank or their European affiliate hold shares in a subsidiary that invests in overseas securities.

Simultaneously, as US investment money from source becomes almost non-existent in Europe, the Americans over here

are scrambling for credits, bonds and European bank loans to meet their cash needs. It is an ironic picture of giant American companies seeking European cash for almost immediate needs as the Europeans are beginning to wring their hands over a cut-off in cash from the USA.

Companies such as the International Business Machines Corporation and the Dow Chemical Co. have been raising sums of up to 60 million dollars in medium-term bank loans. Others are queuing in the international market for dollar loans, a few are selling straight debt issues and many are selling bonds with a permissive conversion into common stock. There is every prospect of European money markets being tapped increasingly by the Americans in this manner and there is fear of mounting pressure on interest rates.

One immediate effect has been a sagging in convertible loan prices, most of which are now selling about the issue price instead of going to a premium as they used to do. Bankers expect that a long-term effect will be an outflow of national markets into the international markets.

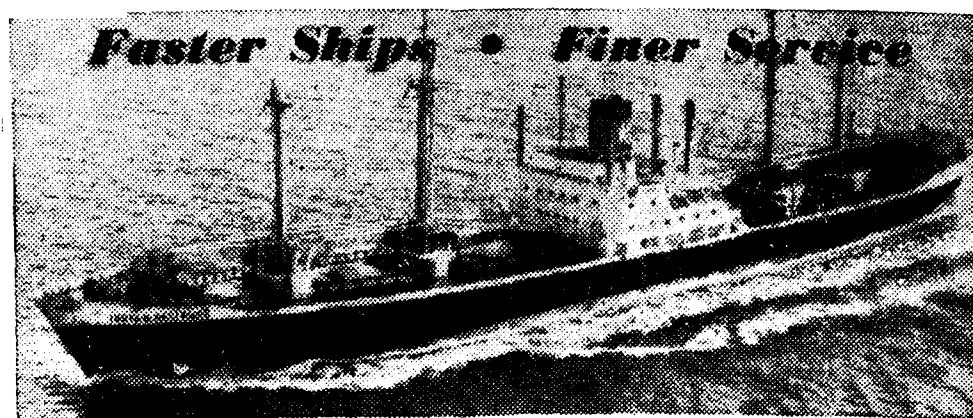
Appearance of Trade Barriers

Another anxiety building up is that, with an increasingly unsettled and stagnant world economic outlook, some at least of the good liberalizing measures resulting from the Kennedy Round may begin to recede, that trade barriers may be rebuilt (some have already made a small appearance in central Europe), that this trend may spread and bring to naught much of the result of four years' difficult discussions.

If the USA fully implements its proposals over the import-export tax there will almost certainly be retaliatory measures of various types. Britain and Canada have already warned that they may be compelled to take such action and there is no reason to think that the French, who buy from the USA twice as much as they sell, will be slow to impose restrictive charges.

A slowing up in world trade is considered to be generally in prospect, accompanied probably by a reduction of as much as 750 million dollars outflow from US banks. Reductions from non-bank US financial institutions may total another 100 million dollars and that from corporations about one billion dollars. Altogether, the cutback in US bank and corporate financial outflows to continental western Europe this year is expected to be 1.8 billion dollars. Although it would be an error to overestimate the effect of this contraction on European economics, there is bound to be a fairly long-term depressive effect in the European countries concerned.

It is not only over a shrinkage of investment capital that the European is worrying. He is concerned also over the long-term effect of the Vietnam war on the US and, ultimately, on all other western economies, including the British. No end to the fighting and the immense US expenditure on war is foreseen. Though no one doubts that the immense resources of the USA could tolerate easily this and other strains, it is over north America's resilience in a world of shrinking trade and of general disenchantment that less certainty is felt. It is this psychological long-term effect of the Vietnam war at least as much as the shortage of investment cash and the prospect of protective trade measures that troubles west Europe increasingly at the present time.



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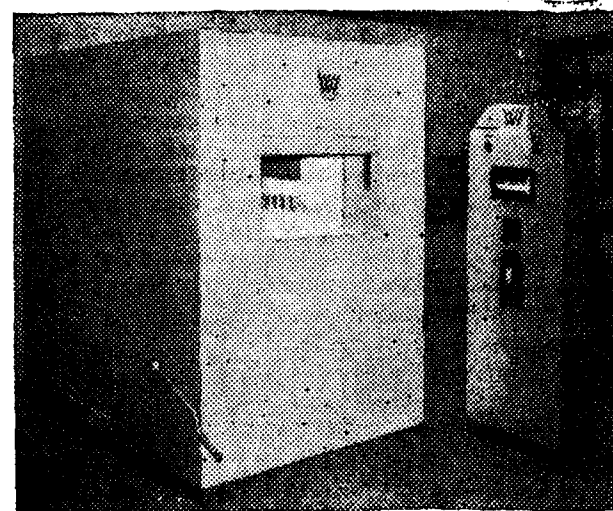
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The moving finger writes

THE WAY the Prime Minister has mishandled the Kutch award should make even her professional admirers chary of defending her capacity for fine political judgment. It should have been obvious to her that there was no question of the Government of India not accepting the award, given the fact that the government had, without any reservation whatsoever, bound itself in advance to accept the tribunal's verdict. In the circumstances, she should have promptly recognised the national advantage that could have been reaped through a prompt and unequivocal announcement on the part of our government that it accepted the award and would implement it in all good faith. Had she made this simple declaration at the first available opportunity, it would not only have enhanced greatly our country's reputation in the eyes of the nations of the world, but she could also have taken the wind out of the sails of the Pakistan government's propaganda machinery which has been working overtime to portray the Kutch award as a great victory for Pindi.

Instead, Mrs Gandhi hummed and hawed and spoke of the tribunal's chairman having imported political considerations into a juridical delimitation of disputed boundary and thereby has given the impression that, to start with, at any rate, the government was in two minds about accepting the award. Thereby she allowed the notion to gain ground abroad that, for the Government of India, its word was less than its bond. She also, quite unnecessarily, helped to tilt the scales in favour of Pakistan's psychological warfare against our country. By betraying so clearly her feelings of being upset by the tribunal's verdict she made it easy for Pakistan to re-present its gains as being greater than they actually were and contributed to the painting of an exaggerated picture of our own losses. As I had indicated at the beginning, all this might have made some sense had there been any scope for the Government of India legitimately seeking to have the award reconsidered. When there was no such possibility at all, Mrs Gandhi would certainly have served our country's interests better had she been able to react to the award in a more mature and professional manner.

It may perhaps be contended on behalf of Mrs Gandhi that she thought it wise not to announce the government's acceptance of the award until she had had an opportunity of talking to opposition politicians and persuading them not to attempt to make a party issue of it but join the government in accepting the award as a national commitment. But then Mrs Gandhi should have known that such a consensus would be impossible to obtain and that it would be wildly unrealistic to expect that no attempt would be made at all to embarrass the government over an issue involving the parting, whether actual or notional, of our territory to a neighbour as unfriendly as Pakistan. As is only to be expected, the government has not been able to prevent the SSP, for instance, from trying to make political capital out of the Kutch award and I do feel that the government's position in dealing with its critics would have been stronger had the Prime Minister not wasted the first few strategic hours after the purport of the award was known in mumbling meaninglessly about waiting for further details, or querulously complaining about the political nature of some of the findings of the tribunal's chairman. The very fact that she was so patently upset over the award naturally gave a handle to those interested in agitating against the government's acceptance of it or raising the cry that the ruling party could not be trusted to ensure the security or territorial integrity of our country. It is necessary that there should be among the Prime Minister's political virtues an ability to put a good face on it when the occasion demands it.

Incidentally, I am amused at the way some eminent minds,

besides Mrs Gandhi's have been working. To Mr M. C. Chagla the award was not binding on the Government of India because, on one of its points, the chairman of the tribunal, according to his own statement, was influenced by considerations not strictly legalistic. Mr Chagla forgot that, in the agreement under which the Kutch dispute was taken to arbitration, no provision was made at all for the disputants questioning the verdict on any ground whatsoever. Again, Mr Morarji Desai, while defending in Parliament the government's acceptance of the award, pointed out that our Constitution itself had laid it down that arbitration could be resorted to in such cases and, having said this, the Deputy Prime Minister went on gaily to declare that "I am prepared to say that we should not go to arbitration in such matters in future". To the extent that Mr Desai's assertion about "no arbitration in future", was made with reference to a question about Kashmir, it was both proper and necessary, but I do hope that it is not the intention of the Deputy Prime Minister to apply his dictum to all differences, and even those concerning national boundaries, between our country and others. What about Katchchativu, for instance?

That there are still people left in our public life who could think through current distempers to the thousands of tomorrows our nation must have is indeed something to be thankful for. Mr G. D. Birla and Mr J. R. D. Tata recently gave evidence of intellectual curiosity of this order. Addressing himself to the basic political problems of our young democracy, Mr Tata, inaugurating the 60th annual general meeting of the Indian Merchants' Chamber, posed the question whether the time had not come to admit that the parliamentary system of government in its present form had failed in our country and that it should therefore be replaced by a presidential system. I must confess that I personally am not prepared to buy what Mr Tata is trying to sell because of the reason, among others, that it demands an even more mature body-politic to work the presidential pattern responsibly than it takes to work the parliamentary system. The scope for political adventurism and opportunism is inherently greater in the presidential system. But my not being able to agree with Mr Tata on his prescription for our political ills need not prevent me from respecting and admiring him for taking time to think and talk of such things amidst all the cares and worries engendered by the "permit-licence raj" with which he is obliged to deal more than most of us.

Mr G. D. Birla, who inaugurated in Jaipur recently a seminar on "Business Leadership in India", was concerned less with forms of government than with the nature and needs of the new society which is overtaking us all. His theme was that the evolution of modern technology and business management was calling for an order of leadership which men of merit, with a liberal intellectual background, alone could provide. He readily granted the importance of the specialised or the technical expert in his own field, but he stressed the fact that the higher responsibility in industry or commerce must always be accepted and discharged by men of calibre who could plan and also guide other men in executing those plans. Conceived in these terms, the emerging business leadership Mr Birla suggested, would be an impersonal one in the sense that it would be a 'meritocracy'; membership of it could not be through family or other 'connections', but, at the same time, it would not be barred to anyone except by the test of ability. He pleaded that, in this brave new world, there could be no room for a conflict of narrow interests, whether of the politician, the businessman, the technician or the intellectual—all could and should work together.

V.B.

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Trade Winds

R.B.I. REDUCES BANK RATE

THE RESERVE Bank of India reduced the Bank rate from 6 per cent to 5 per cent with effect from March 2, and directed a cutback of one per cent to half per cent in other lending and deposit rates, introducing a trend towards cheaper money into an economy which had been witnessing rising money rates in the past few years.

The Bank rate was raised to 4 per cent in May 1957, to 4-1/2 per cent in January 1963, to 5 per cent in September 1964 and to 6 per cent in February 1965. With today's cut to 5 per cent the Bank rate has returned to its level in 1964 when the country had harvested its then biggest farm output and economic conditions were favourable.

Together with the measures that the Reserve Bank had taken in the past to liberalise credit, cheaper money is expected to benefit industries nursing stocks on account of recession or needing to finance larger inventories. Cheaper credit should also have a favourable impact on the prices of industrial manufactures.

F.I.C.C.I.'s NEW PRESIDENT

Mr Gujar Mal Modi has been unanimously elected President of the Federation of Indian Chambers of Commerce and Industry for 1968-69. He takes over from Mr L. N. Birla on April 1, after the FICCI's 41st annual session. Born in Patiala, in August, 1902, he heads the industrial complex in Modinagar.

NEW ASSOCHAM CHIEF

Mr N. M. Wagle, President of the Bombay Chamber of Commerce and Industry, has succeeded Mr C. A. Pitts as the new President of the Associated Chambers of Commerce and Industry of India. Educated at Universities of Banaras, Bombay, London and Oxford, Mr Wagle was appointed to the Indian Civil Service in 1937. He retired from government service in 1947 and joined Greaves Cotton and Co. Ltd, in 1952 vice in 1947 and joined Greaves Cotton and Co. Ltd, in 1952 as a director and was appointed Managing Director of the company in 1957. He was President of the Bombay Chamber of Commerce and Industry in 1961-62. In addition to being on the board of several companies in the private sector, Mr Wagle is chairman of the State Industrial and Investment Corporation of Maharashtra, a trustee of the Unit Trust of India, and on the boards of Bokaro Steel Ltd and Hindustan Machine Tools.

L.I.C. BUSINESS

The total new business of the Life Insurance Corporation of India in January 1968 amounted to Rs 54.72 crores, involving 95,277 policies. This included foreign business of Rs 61 lakhs. During the month, the western zone of the Corporation completed the highest amount of new business worth Rs 15.02 crores, followed by the southern zone with Rs 12.98 crores and the eastern zone with Rs 10.12 crores. The northern and central zones did business worth Rs 9.39 crores and Rs 6.60 crores respectively. The total business completed by the corporation, including foreign business, during the first ten months of the current financial year (April 1967 to January 1968) amounted to Rs 669.31 crores as against Rs 585.14 crores during the corresponding period of the financial year 1966-67.

TRADE WITH SOCIALIST COUNTRIES

In the five-year period between 1960 and 1965, while trade among socialist countries increased by 27 per cent and exports from these countries to developed market economy countries rose by 60 per cent, their exports to developing countries increased by 137 per cent. During the same period, their imports from developed market economy countries increased by 63 per cent and from developing countries by 99

per cent. This was disclosed by Mr Homi J. H. Taleyarkhan, India's representative in Committee V of UNCTAD II. Pleading with the socialist countries to increase their trade with developing countries, he suggested that this could be possible by socialist countries buying more and more of agricultural produce, processed and finished goods from developing countries. On the question of preferential excess conditions, he suggested that this could be possible by latest publicity media and by the developed countries taking such fiscal and monetary measures as would make purchases from developing countries more advantageous to importing organisations.

INDO-CAMEROON TRADE PACT

A trade agreement was concluded recently between India and the Federal Republic of the Cameroon. The agreement provides for reciprocal extension of most-favoured-nation treatment by the two countries to each other in matters of trade and tariffs. This provision shall not apply, inter alia, to any advantage or preferences accorded under any scheme for expansion of trade and economic co-operation amongst developing countries, which is open for participation by all developing countries. This covers the Tripartite Agreement on Exchange of Preferences which was recently concluded by India, the UAR and Yugoslavia. The agreement also provides for meetings of a joint Indo-Cameroon Committee at least once a year to explore areas of trade and economic co-operation between the two countries. The present trade between the two countries is very small and is limited to exports of jute goods and cotton fabrics by India to the Cameroon. The value of such exports has been of the order of less than Rs 2 million. The Cameroon is an exporter of cocoa, coffee, aluminium, cotton, crude rubber, hides and skins, etc.

INDO-JORDANIAN TRADE AGREEMENT

A protocol extending the validity of the trade agreement between India and Jordan for a further period of three years, i.e., up to the end of 1970, was signed in New Delhi last month. India is the largest importer of Jordanian phosphate and our exports to Jordan include tea, jute manufactures, steel bars and rods and textiles.

M.M.T.C. DEAL WITH JAPAN

The Minerals and Metals Trading Corporation has formally signed new long-term contracts in Tokyo to supply a group of nine leading Japanese steel mills with a total of 8.55 million metric tons of iron-ore over three years starting this year. The contracted amount would comprise 6.7 million tons of the basic brand ore, 300,000 tons of crushed ore and 15 million tons of high grade ore. The MMTC has also agreed to import about \$2 million worth of rolled steel from the Japanese mills yearly in 1968 and 1969. The Japanese steel mills have accepted the Indian demand to bear part of a burden incurred by the sterling devaluation on their already-contracted shipments. They also agreed to pay about 1,100 million yen (about £1,272,700) for this purpose as a condition that the money should be used only for the expansion of harbour facilities at shipping ports and development of new mines.

STATE BUDGETS

Orissa

The Orissa Chief Minister and Minister for Finance, Mr R. N. Singh Deo, presented the budget for 1968-69 on February 28 in the state legislative assembly. The budget estimates the revenue receipt during the year at Rs 123.08 crores and the expenditure at Rs 122.19 crores. On the capital side, including "public accounts" receipt and disbursement are estimated at Rs 217.12 crores and Rs 217.51 crores respectively

resulting in a deficit of Rs 0.39 crore. Thus, there would be an overall surplus of Rs 0.50 crore. The current year is expected to close with a deficit of Rs 33 lakhs. After eliminating this deficit, the year 1968-69 will close with a small overall surplus of Rs 12 lakhs. Proposals for three fresh taxes have been made in the budget and will yield additional resources to the tune of Rs 1.99 crores during 1968-69. The three fresh taxation measures are: imposition of taxes on immovable property, non-agricultural land tax and tax on passenger fares.

Madhya Pradesh

The Madhya Pradesh Finance Minister, Mr Ram Hit Gupta, presented to the state assembly on February 28 a surplus budget for 1968-69. The budget, before taxation, shows a deficit of Rs 3.23 crores and the Finance Minister has sought to cover this deficit by a number of taxation measures that would yield Rs 3.30 crores, thus showing a nominal surplus of Rs 7 lakhs. The revenue receipts are estimated at Rs 174.27 crores and expenditure at Rs 179.94 crores. Among the tax proposals are: revision of irrigation rates, revision of rates of water supplies from government water works, state trading in minor forest products, a toll tax on bridges, and increase in the duty on tundu leaves.

Madras

The Madras Chief Minister, Mr C. N. Annadurai, presented to the state assembly on February 28 a surplus budget for 1968-69. The budget places the revised revenue receipts and expenditure for the current year (1967-68) at Rs 227.95 crores and Rs 228.40 crores, leaving a revenue deficit of only Rs 45 lakhs, against Rs 112 lakhs deficit envisaged at the time of presenting the budget last year. The Chief Minister said that the annual plan for 1968-69 would be of the order of Rs 79.68 crores, as against Rs 88.10 crores for the current year. The plan expenditure had taken credit for central assistance of Rs 47.9 crores, though at this stage the centre had firmly committed itself to a figure of only Rs 42.9 crores. Mr Annadurai informed the House that the surplus of Rs 74 lakhs had been arrived at after providing for a sum of Rs 7.224 crores to meet the element of subsidy on sale of foodgrains in areas in which the one rupee a measure rice scheme is now in force.

Punjab

The Punjab Finance Minister, Dr Jagjit Singh, proposed a series of measures to raise additional resources of the order of Rs 6.66 crores for the year 1968-69. Among his 13 odd proposals, one of considerable popular interest is the innovation of a state lottery scheme which is expected to yield an income of Rs 45 lakhs.

The revenue receipts for 1968-69 are estimated at Rs 11,139 lakhs and expenditure at Rs 11,341 lakhs disclosing a deficit of Rs 202 lakhs. But the deficit on the capital account is estimated at Rs 935 lakhs. The total gap work out to Rs 1,137 lakhs against the cash balance of Rs 96 lakhs.

The current financial year was expected to close with a minus balance of Rs 3.60 crores. Instead the revised estimates disclosed a surplus of Rs 96 lakhs.

The levy of tuition fees on students of sixth to eighth classes is estimated to yield Rs 120 lakhs. In justification of this impost, the Minister cited the enormous burden on the exchequer that the greatly enhanced emoluments of teachers had placed. The market fee charged from growers has been raised from 60 paise to Re 1 per cent. This is estimated to bring in Rs 120 lakhs a year. A health cess of 10 paise per visit for outdoor patients and 25 paise daily for indoor patients has been levied. The rates of royalty on minor minerals have been raised by 100 per cent to bring in an additional income of Rs 43 lakhs. Likewise, the rate of show tax on cinemas has been doubled to net another Rs 6 lakhs a year. It has been decided to impose a tax of Rs 2 per

show per advertisement film of 100 running feet. This source is expected to be an increasingly paying one. The limit of token tax on buses has been raised from Rs 3,000 to Rs 4,200 to provide for an additional income of Rs 15 lakhs. It has been decided to increase the stamp duty rates on gift and mortgage of immovable property from three to five per cent.

RAIL COACHES FOR BURMA

Four fully furnished meter gauge railway coaches will be shipped to Burma shortly. This is the first instalment of a total order for 33 units valued at Rs 76 lakhs. The wagons are manufactured in Calcutta by Jessop and Co. Ltd. They are being exported through Commercial and Industrial Exports Limited (CIEL), which was established in 1962 with the specific objective of promoting export of non-traditional products to new markets. The order was secured by India in a world-wide tender on the basis of a competitive bid. The orders from Burma are for the supply of 88 metre gauge bridge girder spans, 6,900 tons of rails, 55 tons of fish bolts and 58 sets of points and crossings.

IRON ORE, WAGONS TO S. KOREA

South Korea is negotiating a long-term agreement with India for the import of six million tons of iron-ore annually for its three-million ton consolidated steel plant expected to be completed in a year or so. This was disclosed by the South Korean Consul-General in New Delhi recently. Mr Woonsang Choi said if the agreement fructified, it would ensure for India foreign exchange of about \$30 million per annum. He said, railway wagons, coaches and rails were continuing requirements of Korea. His country would need about 900 railway wagons and 130 coaches as well as 10,000 tonnes of 50 kg rails for 1968. The aggregate value of these requirements was more than \$20 million. Mr Choi mentioned in this connection that because of delay in the receipt of quotations from India, orders for 50,000 tonnes of rails had already gone to Japan. Hindustan Steel had now given quotations for the balance of 50,000 tonnes. He said, India was shipping to Korea 600 wagons and 450 oil tankers worth about \$11 million. The delivery, which would begin next month, would be completed by August.

New Delhi, Feb. 25 (UNI)—Differences have arisen between the Union Food and Agriculture Ministry and the Planning Commission on the next year's food production target.



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Company Affairs

HINDUSTAN MOTORS

HINDUSTAN MOTORS Ltd has recently introduced in the market its new truck Bedford J-6. The new 7.5-tonne truck will be cheaper than other trucks of comparable tonnage being sold in the country and it has been tailored to suit Indian roads and operating conditions. The import content in the truck which is around 25 per cent at present will be reduced to less than 5 per cent when the engine manufacturing plant goes into production. The company will be manufacturing initially 500 trucks per month and it would be expanded to 25,000 trucks a year within the next two years.

The new range has been fitted with the new Bedford engine which develops 112 HP (SAE) and thus ranks among the most powerful diesel engines in commercial vehicles in the country. The four-speed synchromesh gear-box has been completely redesigned to absorb the high engine torque and gears are shot peened to give long life. Besides, to suit the high torque characteristics of the diesel engine, an extra heavy duty clutch of particularly massive proportions is now fitted to all these models. The deeper channel side rails give increased toughness and durability. The new chassis can lift a load of 8200 lbs. It is now available in six models and its price in Bombay is Rs 44,353. Even before the truck had been officially marketed, the company had been able to secure orders initially from Ceylon.

IMKEMEX

Imkemex India Ltd, export agents of the ICI companies in India, has increased its sales of non-traditional products to overseas markets by 25 per cent during the last financial year. The total overseas business secured during the year was of the order of Rs 2.25 crores of which non-traditional chemicals and allied products were worth Rs 1.28 crores. This achievement is due to the continuous exploration of new outlets in foreign markets by Imkemex's marketing staff and to the after-sales service of specialised technical staff. Imkemex's product range includes polyester fabrics, rubber chemicals, dyestuffs, paints, commercial explosives and safety fuses, polythene, insecticides and a wide variety of other chemical products. Markets include the UK, Japan, Canada, West Indies, Korea, South America, east Europe, west Asia, south-east Asia and Africa.

MAHARASHTRA SUGAR

Maharashtra Sugar Mills Ltd has obtained a licence from the state government for manufacturing Indian-made foreign liquors. Necessary steps are being taken to manufacture potable liquor. It is proposed to manufacture rum in the first instance and to take up other kinds of liquors at a later stage. Under the scheme of diversification the company plans to manufacture sophisticated electronic equipment. For this purpose a new company known as Maharashtra Radio and Electronics Private Ltd has been formed as the company's subsidiary.

The company has, however, suffered a setback in its working during the year ended September 30, 1967. While sales have gone up by Rs 0.27 crore to Rs 3.93 crores, gross profit has declined steeply by Rs 44.68 lakhs to Rs 54.99 lakhs. The directors attribute the fall in profit to higher sugarcane price without a proportionate rise in the price of sugar and all round rise in cost of production. Further, there was also a fall in the sugar recovery percentage as well as in production during the year under review. In spite of it, the directors have decided to maintain the equity dividend at 22 per cent.

With a view to improving its efficiency and to obtaining better results and higher crushing, the company has installed some

new machinery in its factory during the year. Most of the company's claims against the sale of movable assets to the Maharashtra State Farming Corporation have been settled and a few outstanding bills are likely to be finalised shortly.

Out of the gross profit, the directors have set apart a sum of Rs 13.95 lakhs to depreciation as against Rs 8.20 lakhs in 1965-66 while the allocation to taxation was reduced by Rs 28.80 lakhs to Rs 18.20 lakhs. Managing agents' remuneration claimed Rs 1.04 lakhs as compared with Rs 8.02 lakhs in the preceding year while the appropriation to development rebate reserve was whittled down by Rs 11.66 lakhs to Rs 0.55 lakh. This leaves a lower net profit of Rs 21.25 lakhs as compared with Rs 24.24 lakhs in 1965-66. After allocating a sum of Rs 21.50 lakhs to general reserve, the sum of Rs 27,270 has been carried forward as against Rs 52,226 brought in. The proposed equity and preference dividends will absorb Rs 21.29 lakhs and it will be paid out of the general reserve.

KAMANI ENGINEERING

Kamani Engineering Corporation has maintained the dividend at 12 per cent on the increased capital for the year ended September 30, 1967. The recession in engineering industry and the expenditure incurred by the company on expansion projects have together reduced the profit margins of the company during the year under review. In spite of it, if the board of directors have decided to disburse a larger amount, it is entirely due to the confidence of the management in the future outlook of the company.

Sales during 1966-67 went up by Rs 0.68 crore to Rs 6.36 crores while the gross profit declined from Rs 57.38 lakhs to Rs 55.98 lakhs. The directors have enhanced the provision for depreciation by Rs 4.54 lakhs to Rs 14.98 lakhs while the amount set apart for development rebate reserve was stepped up by Rs 13.38 lakhs to Rs 14.95 lakhs. Managing Agents' remuneration claimed Rs 3.47 lakhs as compared with Rs 3.69 lakhs in the previous year. The net profit, after these allocations, was lower at Rs 22.58 lakhs as against Rs 41.68 lakhs in the preceding year.

KHANDELWAL TUBES

Khandelwal Group of Industries is setting up a Rs 2.50-crore plant at Nagpur for manufacturing various types of tubes with a production capacity of 50,000 tonnes per annum. It is launching a new enterprise styled Khandelwal Tubes for this purpose. The new company has been established in collaboration with Mannesmann-Meer and Siemens of West Germany and it will be manufacturing a wide range of galvanised and black steel tubes for use in building, agricultural and industrial fields such as for transmission of air, water, oil, gas and steam. Tubes for boilers and scaffoldings in 15 mm to 100 mm diameter sizes will also be produced by the company. It will be employing in its factory the latest and the new Induweld process, a high frequency induction welding technique recently developed by the West German collaborators for turning out tubes of high quality and standard. The work on the project is proceeding apace and when completed, the company will have the rare distinction of having the most modern tube manufacturing plant of its kind in the country.

CANARA BANK

Canara Bank Ltd has reported highly encouraging working results during the year ended December 31, 1967, with deposits, advances and profits registering impressive increases over the preceding year. During the year the bank has earned a higher net profit of Rs 39.64 lakhs as compared with

Rs 35.67 lakhs in 1966. The directors have recommended an equity dividend of 15 per cent for 1967. In the previous year, the bank paid a dividend of 18 per cent, including the special dividend of 3 per cent declared in commemoration of its diamond jubilee year.

Out of the profit the directors have transferred a sum of Rs 8 lakhs to statutory reserve as compared with Rs 7.35 lakhs in 1966. The proposed equity and preference dividends will absorb Rs 17.23 lakhs as against Rs 20.56 lakhs distributed in the preceding year. After bringing in Rs 49,710, a surplus of Rs 14.90 lakhs, subject to payment of bonus to staff, is carried forward.

During 1967 the bank's deposits recorded a meteoric rise of Rs 12.52 crores to Rs 126.56 crores while advances jumped to Rs 80.35 crores from Rs 66.39 crores in 1966. During the year the bank opened seven new branches bringing the total number of branches to 247 at the end of 1967.

The bank has recently set up an industrial information and guidance service especially for the benefit of small entrepreneurs who want to start small-scale industry.

KIRLOSKAR-ASEA

Encouraged by the handsome rise in sales and profits the directors of Kirloskar-Asea Ltd have declared a maiden dividend of 5 per cent for the year ended September 30, 1967. Sales have spurted to Rs 47.79 lakhs from Rs 35.38 lakhs while the gross profit was significantly higher at Rs 11.55 lakhs as compared with Rs 8.38 lakhs in 1965-66. Sales according to the directors would have been higher but for the recession in the engineering industry. The allocation to depreciation reserve was stepped up by Rs 0.14 lakh to Rs 2.81 lakhs while managing agents remuneration absorbed Rs 87,476 as against Rs 57,068 in a year ago. Development rebate reserve was earmarked with Rs 74,235 as compared with Rs 32,898 in the previous year while the appropriation to taxation reserve was enhanced from Rs 18,000 to Rs 1.96 lakhs. This leaves a higher net profit of Rs 5.17 lakhs as compared with Rs 4.63 lakhs in 1965-66. A sum of Rs 3.20 lakhs was transferred to general reserve as against Rs 3.05 lakhs provided in the preceding year. The proposed dividend will claim Rs 2 lakhs. The surplus of Rs 929 has been carried forward as against Rs 995 brought in.

MARTIN BURN

The directors of Martin Burn Ltd have decided to pay a final dividend of 5 per cent for the year ended September 30, 1967, on a enlarged capital as increased by the issue of bonus shares in the proportion of one share for every two shares held. An interim dividend of 7.5 per cent has already been paid on the old capital. Thus the total dividend for 1966-67 in terms of the old capital works out to 15 per cent as against 25 per cent paid in the previous year.

GOODYEAR

The management of Goodyear India Ltd has declared a bonus of 20 per cent for 1967. The bonus has been paid at the end of January. While the company's operating results for the year ended December 31, 1967, have not yet been released, the declaration of the maximum bonus under the Bonus Ordinance of 1965 indicates that the working results for 1967 have been quite satisfactory.

MADRAS INDUSTRIAL LININGS

Madras Industrial Linings Ltd is offering 10,000 equity shares of Rs 100 each and 5,000 redeemable cumulative preference shares of Rs 100 each carrying an interest of 10 per cent per annum for cash at par to the public for subscription. The list opened on March 6 and will close on March 20 or earlier at the discretion of the directors but not before March 9. The public issue is fully underwritten.

The company is setting up a factory at the Industrial Estate, Ambattur, near Madras City, for manufacturing 20,000

square metres of rubber linings per annum in technical collaboration with Messrs Societe Chimique de Gerland of France. The construction of the factory is expected to start some time next month. The company expects to commence trial production by March 1969 and commercial production by July 1969. The project is estimated to cost Rs 67.16 lakhs.

C.I.E.L.

Commercial and Industrial Exports Ltd (CIEL), the export firm of the Tata Organisation, has secured four new export orders, two from Sudan and two from Burma, totalling Rs 104.29 lakhs. The first order from Sudan is for 100-tonne EOT and 40-tonne electric postal cranes for the new Roseires Hydro-Electric Power Station. This order was secured in the face of international competition. The second order covers 225 pressed steel water storage tanks and steel stagings required by the Rural Water and Development Corporation of Sudan. The orders from Burma involve 88 metre gauge bridge girder spans and supply of rails, fish bolts and sets of points and crossings. It is worth mentioning here that CIEL is already supplying to Burma fully furnished deluxe metre gauge coaches and bridge girder spans.

FACT

The FACT Engineering and Design Organisation (FEDO) has been awarded a turn-key contract for setting up a hydrogen plant at Rasayani, Bombay, for the Hindustan Organics Limited, a public sector enterprise engaged in the manufacture of basic chemicals. The contract by FEDO was obtained in competition with well-known foreign firms of high standing in the field and it was the first time that the complete design and engineering of a plant to manufacture high-purity hydrogen was being undertaken by any Indian firm without foreign assistance.

The total capital outlay on the project would be Rs 60

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 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,
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lakhs while the foreign exchange component would be Rs 8 lakhs only. The hydrogen produced by the plant will be of 98.5 per cent purity and is to be used for the manufacture of aniline. Steam reforming of naphtha will be the process adopted for the project, which is to be executed in a period of 21 months.

SYNDICATE BANK

Syndicate Bank Ltd has recently opened five new branches in rural areas with a population of less than 10,000. With this addition, the bank now has 224 branches, out of which 106 are in areas with a population of 25,000 or less, 54 in areas with a population ranging from 25,000 to one lakh and 64 in cities with a population of one lakh and over.

J.K. STEEL

J. K. Steel Ltd has again taken a lead in exploring new markets for its products. Recently the company has exported a bulk consignment of wire ropes to Rumania by S. S. Vishwa Usha. This is the first export not only of the wire ropes but that of engineering products from our country to Rumania.

ALEMBIC CHEMICALS

Alembic Chemical Works Co. Ltd, Baroda, is currently undertaking a feasibility study to set up a plant in collaboration with Sumitomo Chemical Co. Ltd of Japan for the manufacture of polypropylene with a capacity of 15,000 tonnes per annum. The factory has an added advantage that it is very near the Koyali refinery from where the plant will be getting its supplies of naphtha for the manufacture of this item. The foreign collaborators will be supplying the necessary technical know-how and a part of the machinery for the project. The preliminary work will be undertaken in the course of this year and the plant is expected to go on stream by 1971.

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 December 23, 1967. The list contains the names and addresses of the licensees, articles of manufacture, types of licence—New Undertaking (N.U.); New

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

LICENCES ISSUED

Machine Tools

M/s Metro Wood and Engineering Works Pvt. Ltd, Ashram Road, Navrangpura, Ahmedabad-9. (Kalol, Gujarat State): Up-Setting Machines for manufacture of Shuttle tips. Auto Engineering Valves, Bolts, Nuts etc.—(N.A.).

Tyres & Tubes

M/s Dunlop India Ltd, 57-B, Free School Street, Calcutta-16. (Sahagun, Calcutta, West Bengal): Automobile Tyres—100,000 Nos. (S.E.); M/s Dunlop India Ltd, 57-B, Free School Street, Calcutta-16. (Ambattur, Madras, Madras State): Automobile tyres—35,600 Nos.; Automobile tubes—1,24,800 Nos. (S.E.).

LETTERS OF INTENT

Engineering Industries

M/s River Valley Equipment Co., R. C. Dutt Road, Baroda-5. (Baroda, Gujarat State): Polyethylene Heavy Duty Plastic Bags—14 million Nos. (N.U.).

Drugs & Pharmaceuticals

M/s British Drug Houses (India) Ltd, Imperial Chemical House, Graham Road, Bombay-1. (Maharashtra): Megestrol Acetate—157.5 kgs; Dimethisterone—10.5 kgs; Methiazine Hel—180.0 kgs; Iron Sorbitol Citric Acid complex—5,000.0 kgs. (N.A.).

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

From Shri M. M. Amersey, Bombay to M/s Apte Trust Properties, Bombay.

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

M/s Electric Construction & Equipment Co. Ltd, Calcutta—Circuit Breakers of 66 KV and above; M/s Motwane Manufacturing Company Private Ltd, Bombay—Fixed and variable Resistors; M/s Jay Shree Chemicals & Fertilizers, Calcutta—Alum (including Ferric, Pink and Ammonium Alum); M/s Prakash Agencies, Rajkot—Oxygen and Dissolved Acetylene Gases; M/s Daurala Sugar Works, Daurala—Sugar; Shri C. L. Wadhwa, Bombay—Alumina Cement.

March 8, 1968

BOOKS BRIEFLY

Towards a Breakthrough in Agriculture

Agricultural Development in India: Dr S. C. Jain: Kitab Mahal, Allahabad; Pp. 384; Price Rs 20.00.

Reviewed by A. S. SUNDAR RAJAN

The problems of the agricultural sector in this country offer substantial food for thought for researchers. The book under review is one such academic effort at analysing the problems confronting our agriculture. It is based on a thesis submitted by Dr S. C. Jain to the Allahabad University for the D.Phil degree. The book is based on the fact-finding surveys and investigations conducted by the author in the state of Madhya Pradesh.

Dr Jain observes that for stable economic development a growing agricultural sector is a "must". But our agriculture has suffered from stagnation and neglect. In spite of great improvements in the non-agricultural sector, agriculture has remained the mainstay of our economy. The lack of irrigational facilities is the main problem of agriculture, as witness the two years of drought. Eventhough, opines the author, some headway has been made to provide irrigational facilities under the plans, not much progress has been achieved. What is more deplorable is the fact that even the limited irrigational resources that have been created under the plans have not been put to proper use, thus affecting production and blocking capital investments.

The pressure on land and the consequent low productivity is yet another problem of agriculture. Productivity in our agriculture is perhaps the lowest in the world. Moreover, there is lack of credit facilities, low marketable

surplus, sub-division and fragmentation of holdings etc. to add to the problems of agriculture. Dr Jain believes that these have directly affected not only the producers but also the consumers.

Land reforms, in this context, have failed to substantially bring about any change in production, if not impeded all possible improvements in agriculture. "The investment in agricultural improvement was very meagre," says Dr Jain reporting on the basis of his investigations, "and we do not have any evidence of healthy capital formation on land having taken place as a result of land reforms."

To achieve a real breakthrough in agriculture, the author says, we need some practical rethinking on all these problems. Co-operative farming, in this context, involving, as it should, mechanical, scientific, and large-scale farming with increased use of fertilizers and universal irrigation, seems to the author to be the only answer. The co-operatives can also undertake joint marketing of the products and also meet the credit needs of the farmers.

The failure of the co-operatives up to now to make any stride forward must not dampen our efforts. Its failure is essentially due to lack of enthusiasm on the part of the agriculturists and our efforts, therefore, says Dr Jain, must be aimed at kindling this enthusiasm. In order to make it a success even some amount of compulsion should be resorted to.

The scope of the book seems to be limited with too much of concentration on the data relating to one state only. Moreover, even these data seem to be stale.

Readers' Roundtable

IMPORTS OF CABLES AND CAPACITORS

Sir,—Despite the recession in engineering industries, cables and capacitors are being imported on a large scale. During 1965-66 and 1966-67, capacitors of the value of Rs 74.63 lakhs and Rs 77.41 lakhs respectively were imported. Even during the six months ending September 1967, the value of imports of capacitors was as high as Rs 57 lakhs. Similar is the case with the cable industry. Different types of cables and electric wires valued at Rs 9 crores a year, on the average, were imported during the last five years. Even in 1967, the value of imports of cables was placed at Rs 4.5 crores. In addition to these unlisted imports, there was a substantial volume of unlisted imports of cables and capacitors which were imported as part of equipment.

Recently, import of a sizable quantity of power capacitors was allowed to various state electricity boards even when they could be easily manufactured indigenously by utilising the idle capacity. There is no justification for such imports when the indigenous industry is not fully engaged. Moreover these imports make a mockery of the government's policy of encouraging import substitution.

What is worse, our import tariffs operate against the interests of indigenous industry. The import duty on cables and capacitors is 27½ per cent while the indigenous manufacturers

have to pay as much as 127½ per cent towards import and countervailing duties on import of some of the raw materials required for the manufacture of these products. The defective schedule of import duties encourages imports of finished goods such as cables and capacitors. Consequently, the indigenous raw materials always cost more than the imports. For example, even after paying import duty, the imported aluminum foil costs Rs 17 per kg as against the domestic price of Rs 22 and more per kg. The consumer naturally opts for the imported material. It is for the government to stop unnecessary drainage of foreign exchange through such imports.

The UNCTAD secretary-general recently pointed out that "the tariff structure in major developed market economy countries remains relatively protective against imports of manufactured goods from developing countries." But the situation in our country is quite the opposite in view of our defective tariff structure. We are dependent so much on foreign countries that we are not in a position to exploit our own resources effectively. It is, therefore, necessary that the import of capacitors and cables should be banned and the customs duties so changed that the imported finished goods do not remain cheaper than the indigenous products. This will give the indigenous industry a fair chance to compete with the imported products. This will also save valuable foreign exchange.

S. P. S. DANGI



RECORDS AND STATISTICS

Economic Survey: 1967-68

THE SHORT-TERM economic outlook, according to the latest assessment of the union Ministry of Finance as set out in the Economic Survey for 1967-68, is "one of easing of the economic strains of the last two years". For the consolidation of the gains, particularly in agriculture, continued attention needs to be paid to raising productivity. The survey has also stressed the need for deploying the capacity available in the capital goods industries.

Extracts from the survey (illustrated with graphs) are reproduced below:

The Economic Survey for 1966-67, presented in May 1967, described how the Indian economy was affected by depressed farm output for two consecutive years. Later information showed that the drop in national income in 1965-66 was somewhat steeper than had been calculated earlier and that the recovery in 1966-67 was marginal in character. Although foodgrains production was slightly higher, total agricultural output in 1966-67 remained a shade lower than in the previous year. The volume of industrial production increased very slowly during 1966-67 and the rate of activity in the subsequent period has not picked up markedly. The sluggishness in commodity production had affected adversely the derived demand for transport as well as other services.

Striking Development

The most striking development during 1967-68 was the response of agricultural output to the new development strategy for agriculture in a year of favourable rainfall; production had not reacted to larger supplies of inputs in previous years because of adverse weather conditions. National income rose by about 11 per cent over the year as a whole. During most of the year, however, a major objective of policy was to ensure adequate supplies of foodgrains and to restore purchasing power in areas particularly affected by scarcity such as Bihar, and to continue the equitable distribution of large quantities of foodgrains in the country as a whole through public channels. The major administrative task of averting famine was successfully accomplished. Fiscal and monetary policies were deployed to hold in check the rise in prices resulting from shortage of foodgrains and agricultural commodities in general. Towards the end of the year, prices of foodgrains fell because substantially larger crops began to arrive in the markets. The rate of growth of industrial production had slackened because of shortage of agricultural raw materials and in part due to lack of demand. Selective measures were adopted to stimulate production while adhering to the overall policy of restraining inflation. In the latter part of the year, industrial production showed some response to higher outputs in agriculture. The balance of payments continued to be under pressure because of the burdens of debt servicing and import requirements which could not be financed from foreign assistance. Some progress was made with regard to the re-financing of debt service payments. While shortage of supplies impeded export performance, a number of measures were taken to promote export earnings, including downward adjustments in certain export duties.

Raising agricultural production with a view to speedy reduction of dependence on imports continues to be a major objective of policy. Inputs needed by agriculture need to be produced, and where necessary imported, on a priority basis. Procurement prices have been adjusted to ensure that farmers continue to get adequate returns. Arrangements have been made for substantial procurement of foodgrains to be supplemented by imports in order to maintain a reasonable level

of public distribution, but more important, to build up buffer stocks. Investments in buffer stocks will contribute to development by providing insurance against the effects of adverse weather conditions; private inventories of foodgrains which were depleted in the preceding two years are also expected to go up. When account is taken of the increase in public and private inventories, the supply position of foodgrains, although easier than in the recent past, will still be such as to call for careful handling of the food situation. Larger availability of commercial crops should mean that supply bottlenecks to industrial production will ease; and demand for industrial consumer goods is expected to revive in response to higher incomes. Apart from the increased investment in inventories of foodgrains and other agricultural products, private fixed investment may well respond to better supply position and the rise in national income. A sizable expansion of export earnings is anticipated, in view of the increase in exportable surpluses and the efforts currently being made to augment exports of industrial commodities.

CHANGE IN PRODUCTION AND INCOME

Item	Per cent change over preceding year	1964-65	1965-66	1966-67	1967-68
National income at constant prices	7.4	-4.3	1.7	(10.8)	
Agricultural production	10.8	-16.3	-0.2	(20)	
Foodgrains production	10.0	-19.5	3.1	(27)	
Industrial production	5.8	4.0	2.8	1.7*	
(i) Mining and quarrying	-2.5	10.3	1.4	1.1*	
(ii) Manufacturing	6.1	3.1	2.5	1.0*	
(iii) Electricity generation	11.5	10.5	9.2	11.0*	
Passenger-Kilometres carried by Railways	5.5	3.0	6.1	n.a.	
Tonne-Kilometres carried by Railways	-0.3	9.6	-0.2	n.a.	
Public sector employment	5.9	4.5	2.9	2.5†	

Figures in brackets are rough estimates based on information presently available

* April-October 1967 compared to April-October 1966.

† At the end of June 1967 compared with June 1966.

Now that the acute food scarcity of 1966 and 1967 is over and the relatively large kharif crop is being marketed, it may be useful to review in retrospect the experience of the past two years and to draw inferences for future policy. There is also need to explore suitable measures so that the favourable agricultural output of 1967-68 can be transformed into an enduring asset of developmental significance.

Despite the large increase in imports, per capita availability of foodgrains appeared to have declined by 15 per cent in 1966; but this does not take into account the decline in private inventories which must have occurred. The following year, 1967, started with a pipeline in the private sector which had run dry. The production of cereals was slightly higher than in the preceding year but that of pulses was lower. Food imports declined. Stocks in the public sector, particularly those of the centre, were run down. On the whole, per capita availability in 1967 was marginally lower than the very low figure of the previous year.

The rice situation was particularly difficult in 1967. Not only was domestic production slightly lower than during the previous year but there was a drop in imports of more than 40 per cent. The international price of Burmese or Thai rice

rose sharply. On many occasions rice was simply not available in the world market. Also, domestic procurement of rice had diminished notably relative to the previous year. These factors made it difficult for the centre to make adequate allocations of rice to deficit states such as Kerala and West Bengal. Whenever rice was not available, substitutes, such as wheat or coarse grains, were despatched.

Despite these strains, the public distribution system was maintained with reasonable efficiency. As government reserves were at the rock-bottom level, the entire food operation was at the mercy of unforeseen events such as the blocking of the Suez Canal, delays in handling cargo owing to dock strikes and similar contingencies. Viewed in this context, the management of the food situation during the last two years can be regarded as an impressive achievement.

Crop Prospects

Weather conditions in 1967-68 have proved to be favourable. The volume of rice flowing into certain selected markets during the period October-December 1967 was about 30 per cent higher than during the corresponding period of 1966. The wholesale price index for rice declined by 15 per cent from end-September to end-December 1967. Also, rabi sowings have been good and if weather conditions are normal during the rest of the season, rabi harvests are also expected to be very good. Altogether, foodgrains production in 1967-68 may reach a level of 95 million tonnes. On this basis, foodgrains production would rise by nearly 27 per cent over the abnormally low level of 1966-67. Although the implied annual increase compared to the previous peak year 1964-65 would be 2.3 per cent, measured from a three-year average centred on 1963-64, the annual increase in food output would be 3.5 per cent.

After allowing for animal feed, seed requirements and wastage from gross production of 95 million tonnes, the amount available for human consumption would be 83 million tonnes or 435 grammes per person per day in 1968. Although this level of daily consumption would be over 8 per cent higher than in the preceding two years, it would fall short of the average level prevailing in 1961-63 or 1963-65. In other words, without supplementary imports the relatively big crop expected this year would fall short of consumption requirements even if inventories were not replenished.

There will be a natural tendency for farmers, millers, traders and consumers to rebuild stocks exhausted during the last two years. The magnitude is difficult to estimate but there is no doubt that a portion of the new crop will be absorbed in this normal restocking operation in the private sector. Such holdings of food at various points in the economy are one thing and speculative accumulations are quite another. Continued vigilance will be required to prevent such malpractices.

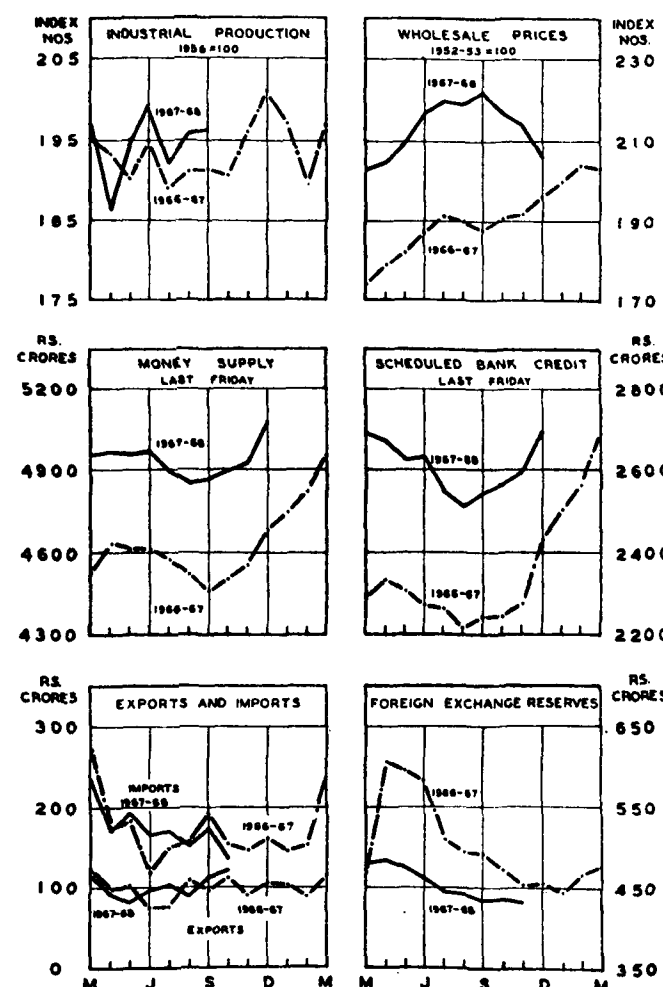
The history of fluctuations in the Indian food economy and particularly the experience of the last two years prove the urgency and desirability of building a sizable buffer stock in public hands. Accordingly, the government has decided to build a buffer stock. Suitably managed, such an inventory could play an important role in overall price stabilization policies besides facilitating the implementation of a rational food policy. Armed with an adequate buffer, government would have the capacity of intervening in the food market whenever and wherever necessary to correct malpractices and assure appropriate supplies. Similarly once the government acquired a commanding position in the food market, procurement operations would become relatively easy. There would be little incentive to withhold supply once government had demonstrated its capacity to control price fluctuations in the grains market.

The level of year-end closing stocks with the state and

central governments has varied widely from less than 320,000 tonnes in 1956 to more than 2.8 million tonnes in 1960. At the end of 1966 total stocks amounted to 2.2 million tonnes of which 40 per cent was held by the central government. During 1967 central stocks declined sharply and for most of the year this pipeline was at the precarious level of one week's distribution requirements. These stocks will have to be replenished during 1968. The optimum size of the government food buffer cannot be determined 'a priori' but only in the light of experience. For the next year the target is to add 3.0 million tonnes to central and state government stocks. Modest as this target may look, it can nevertheless have a significant effect on the food economy, considering that even relatively small shortages of foodgrains tend to have disproportionate effects on prices. A buffer stock of this magnitude will require substantial financial resources.

The decision to build a buffer stock reinforces the importance of mounting a sustained procurement drive. The target is to procure seven million tonnes or about 8.4 per cent of estimated net production, or some three times as much of the marketable surplus in percentage terms. The ratio of procurement to production was fairly high in the early 'fifties in the context of widespread rationing which existed at that time. Subsequently, the procurement effort diminished as controls over food distribution were dismantled. In recent

SELECTED ECONOMIC INDICATORS



MINISTRY OF FINANCE, ECONOMIC DIVISION.

years, a sharp rise has occurred in the procurement ratio and the target set for this year is not beyond the limits of feasibility.

While procurement prices have been adjusted upward in recent years, open market prices have risen more. For example, the average level of procurement prices of rice increased from about Rs 66 per quintal in 1965-66 to about Rs 73 in 1966-67 or by about 10 per cent. Even so open market prices were substantially higher in several states and this discrepancy added to the difficulties of procurement in years of acute shortage. However, expectations of a large crop in the current year have changed the overall context and also the role which procurement prices can play in the new situation. Open market prices have already started falling and there may be occasions on which procurement will take on the character of price support operations. Such price support will not only improve the farmer's realisations as compared with what they would otherwise be, but also reduce the incentive for private speculative holding.

Better Incentive

It is recognised that it is important to assure the farmer that a reasonable level of agricultural prices will be maintained during the course of the season. What is a reasonable level for agricultural prices is not easy to determine. Agricultural prices have risen much faster than manufactured goods prices since 1962-63 and correspondingly the farmer's terms of trade have improved noticeably. These changes in price relations have contributed to better incentives for the agriculturist and to the favourable climate for farm investment and production. In all probability, the farmer's terms of trade will deteriorate during 1968 as open market prices of agricultural commodities decline and as there are lagged price increases for manufactured goods. There is, however, room for some realignment of price relations as agricultural prices of the last two years reflected abnormal scarcity conditions. The procurement prices for kharif cereals have also been raised in order to maintain the adequacy of incentives. The average procurement price for rice was raised from about Rs 73 per quintal in 1966-67 to about Rs 77 in 1967-68 or by about 5 per cent (procurement prices for various states weighted by the actual quantity procured in 1966-67).

The kharif harvest was late and the procurement drive started slowly. Even so, during the first three months of the season (November 67-January 68) nearly 1.4 million tonnes of kharif grains (rice and coarse grains) were procured, compared to 0.7 million tonnes during the corresponding part of last season. A high level of procurement will help to reduce the dependence of the public distribution system on imported supplies. In recent years, imports constituted more than 70 per cent of food distributed through public channels.

To eliminate gradually the dependence on imports is a major objective of food policy. Imports were at a high level during recent years owing to successive harvest failures. In 1967, imports amounted to 8.72 million tonnes compared to 10.34 million tonnes in 1966. Although a substantial portion was financed by foreign aid, free foreign exchange payments for food and freight imposed a heavy burden on the economy. Despite the large crop which is expected, imports will have to be maintained at a relatively high level in 1968 also. Taking account of the replenishment of the private pipeline, the building up of the public buffer stock and a conservative estimate of per capita consumption, import requirements are placed at about 7.5 million tonnes. In this connection, an agreement with the US government, under the PL 480, for the import of 3.5 million tonnes has already been signed.

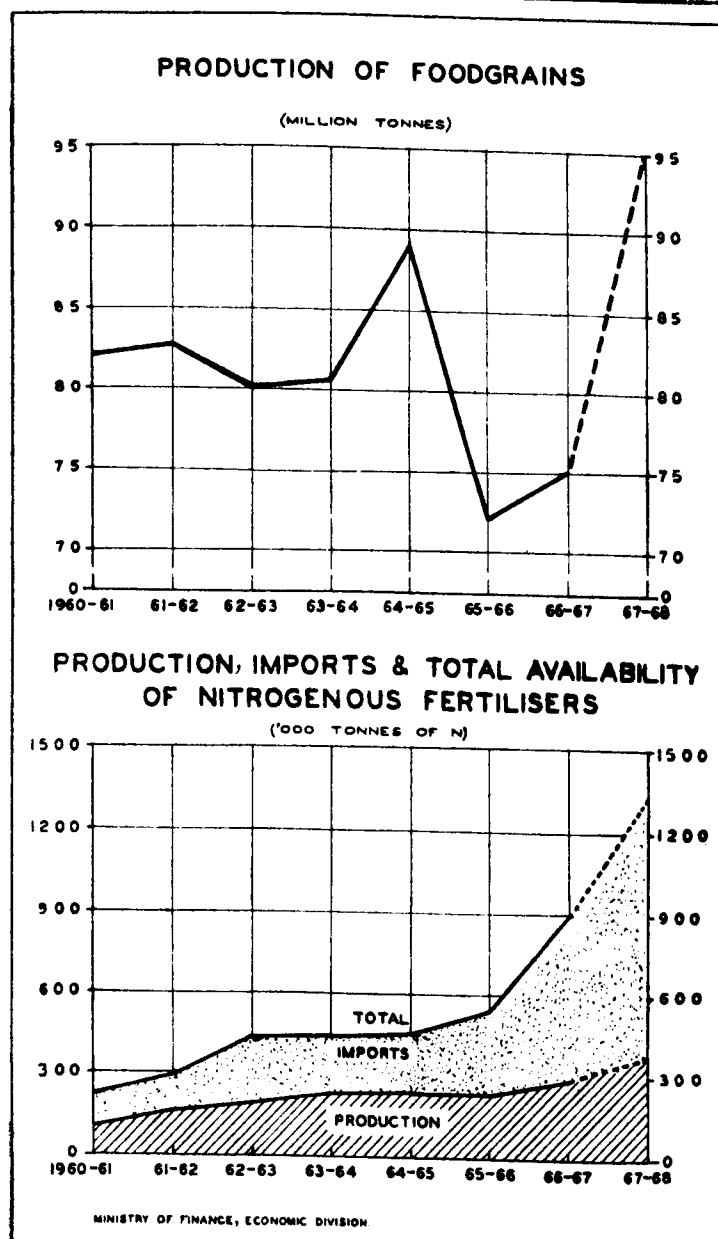
In many ways 1968 may be described as a year of transition as far as food policy is concerned. On the assumption that the 1968-69 agricultural season proves to be normal, India will have crossed a watershed. In that context, it will be

possible to rationalise the food economy and to diminish the dependence on imports.

The large increase in the output of foodgrains expected in 1967-68 is mainly the result of favourable weather conditions compared to the preceding two years. However, a considerable part of the increase can be attributed to policy measures taken to raise the productive capacity of Indian agriculture.

The proportion of plan expenditures devoted to agriculture and related fields is not an adequate measure of the priority being given to agriculture, as the bulk of the investment in agriculture is in the private sector, and a substantial part of the effort to improve agricultural productivity gets reflected in higher investment in other sectors. It is nevertheless significant that this proportion has risen in recent years. Whereas these expenditures absorbed 20 per cent of the total third Plan outlay, the corresponding proportion in 1966-67 was 22 per cent and the budget estimate for 1967-68 was more than 23 per cent. The central government has played a major role in the financing of agricultural development. More than half of total central assistance to state governments for financing the 1967-68 plan was earmarked for the agricultural sector. Furthermore, fertiliser credits to state governments to the tune of Rs 105 crores were envisaged outside the plan.

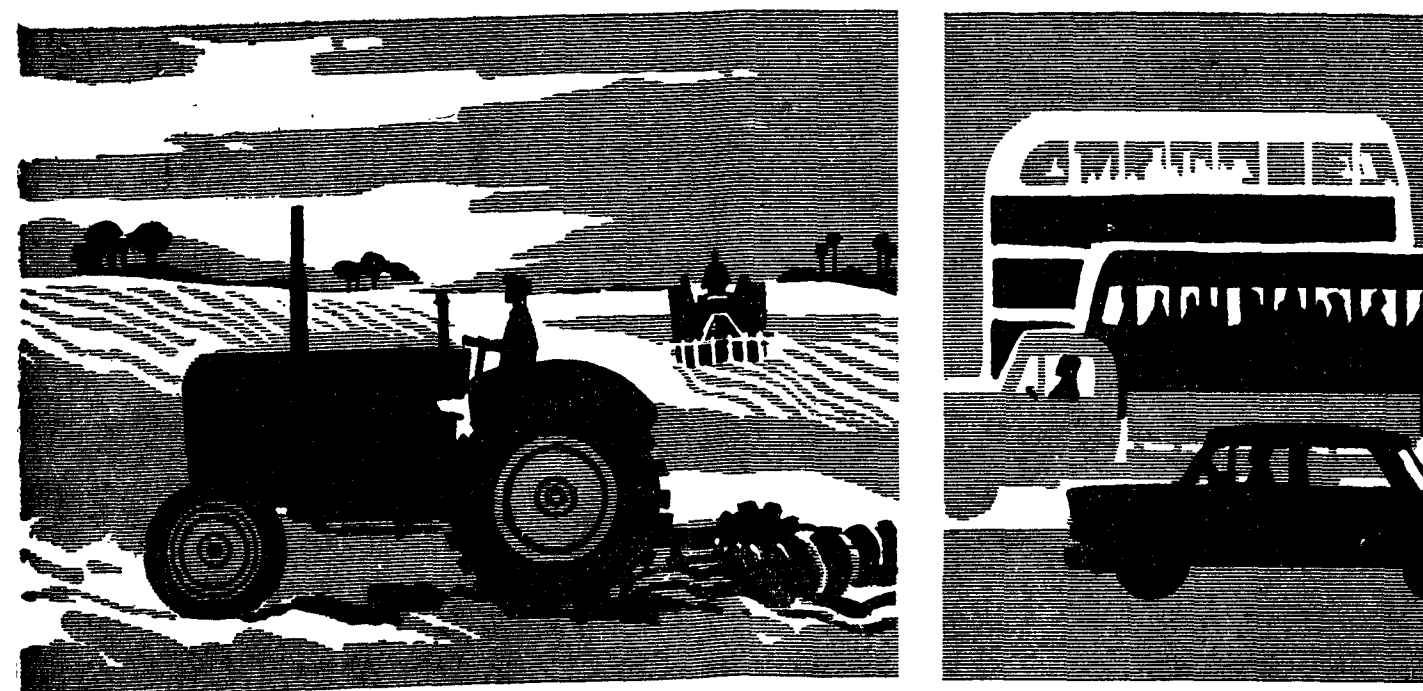
The use of various chemical fertilisers has increased by



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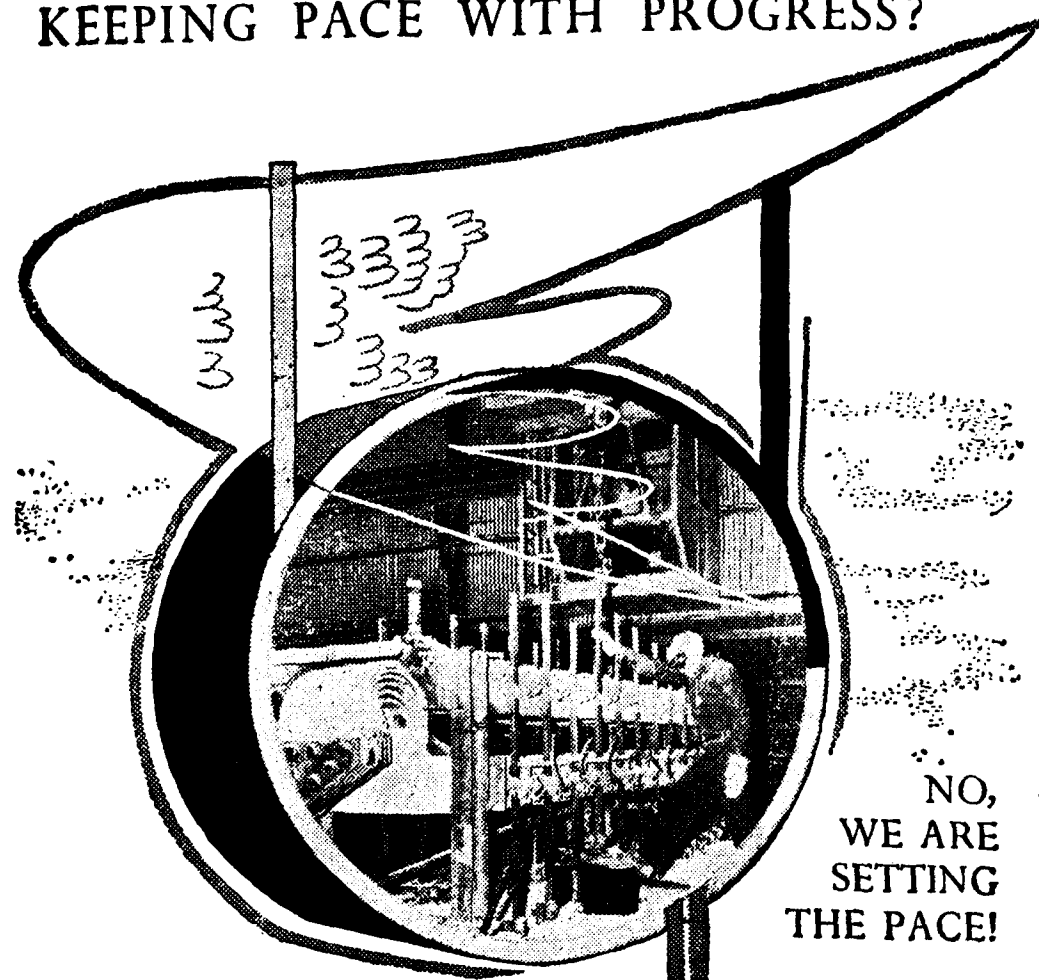
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more than 200 per cent since 1964-65. The domestic production of nitrogenous and phosphatic fertilisers has almost trebled during the last six years. Several projects for expanding capacity are under construction and others are in an advanced stage of planning. There is reasonable certainty that installed capacity for nitrogenous fertilisers will reach a level of 2.76 million tonnes by 1971-72 compared to 586,000 tonnes in April 1967. On the basis of optimistic assumptions regarding proposals now under consideration, installed capacity may reach a level of 3.46 million tonnes by 1971-72. Meanwhile, local production will be supplemented by purchases abroad. The value of fertiliser imports increased from \$25 million in 1960-61 to \$190 million in 1966-67 and is expected to reach \$265 million in 1967-68 (Departmental estimates).

The programme for the introduction of high yielding varieties of seed started in 1966-67. The target was to cover 6.2 million acres but widespread drought over large parts of north India and shortfall in the supply of some hybrid seeds created difficulties. As a result, the actual achievement was about 80 per cent of the target. Although systematic data regarding yields of these new seed varieties are not yet available, there have been encouraging reports from some states. The yield of the Tainan-3 variety of paddy in Kerala was 110 per cent higher than the average yield in this state as a whole. (Average state yields are for the period 1962-63 to 1966-67.) Similarly, the yield of the ADT-27 variety of paddy in Madras was 186 per cent higher than the average state yield. The results for the exotic wheat varieties are even more impressive. In Rajasthan, the Mexican variety gave yields which were 275 per cent higher than the state average. In Uttar Pradesh, the K-68 variety gave yields which were 210 per cent higher than the state average. These calculations are no more than illustrative as production secured by high yielding varieties reflects not only the properties of the seed but the entire complement of superior inputs—an assured water supply, intensive fertiliser application and use of plant protection materials.

High Yielding Varieties

The coverage of the high yielding varieties programme increased to about six million acres in the 1967 kharif season and the target for the whole of 1967-68 is 15 million acres. The procedures for implementation were improved in the light of the experience gained during the preceding year. Special measures have been taken to assure the supply of the required quality and quantity of seeds at the proper time. The propagation of the foundation seeds and their multiplication is proposed to be carried out on large-sized central seed farms.

ASPECTS OF AGRICULTURAL IMPROVEMENT

Item	Unit	1964-65	1966-67	1967-68 (target)	1964-65 to 1967-68 Per cent change
Fertiliser Availability					
Nitrogenous	('000 tonnes)	451	895	1350	200
Phosphatic	('000 tonnes)	160	294	550	244
Potassic	('000 tonnes)	57	120	296	420
Area covered by Im- proved Seeds					
High Yielding Varieties	(million acres)	0.0	4.8	15.0	...
Other Improved Varieties	(million acres)	99.3	108.4	118.3	19
Gross Area Irr- igated	(million acres)	77.0	81.6	87.1	13
Area covered by Plant Protection					
	(million acres)	38.0	59.0	126.0	232

The new seed technology is not without its uncertainty.

The high yielding varieties are mostly of foreign origin and the experience so far is not sufficient to determine their adaptability to local climatic and soil conditions. Foreign seed varieties may be particularly vulnerable to local diseases and pests and in some cases it will be necessary to develop new resistant strains. The process of experimentation and research is an indispensable ingredient of the new agricultural strategy and this process must continue. The shifting of Indian agriculture from one level of technology to a superior level is not an easy task. It has far reaching implications in terms of the required extension effort, the supply of inputs and the reorganisation of credit facilities.

Diagnosis of Recession

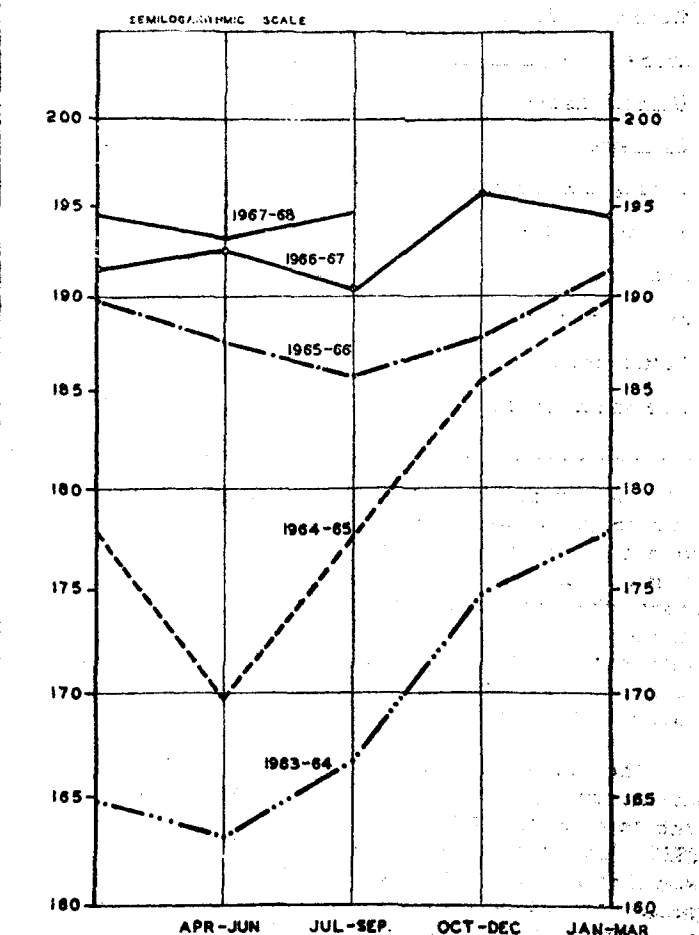
Recent industrial experience is often described as a recession. This description does not, however, mean a general decline in industrial production or in economic activity. The volume of industrial production has, in fact, continued to rise. However, there has been a notable slowing down in the annual percentage rate of increase due, mainly, to the slowing down in the growth rate, or absolute decline, in certain industries. A number of other industries have maintained or improved their rates of growth.

During the first three years of the 1960s industrial output increased by more than 8 per cent per year. Since then the

INDEX OF INDUSTRIAL PRODUCTION

(QUARTERLY AVERAGES)

1956 = 100



MINISTRY OF FINANCE, ECONOMIC DIVISION.

growth rate has diminished; in 1965 production rose by 5.6 per cent, in 1966 by only 2.6 per cent and in the first three quarters of 1967 the increase was not more than 1.4 per cent.

PROFILE OF GROWTH IN INDUSTRY

Industry	1956-64 Average annual growth rate per cent	Percentage growth in the year over the preceding year		
		1965	1966	1967 (Jan.-Sept.)
Machinery except electrical	19.5	18.0	8.2	-0.4
Electricity generation	14.6	10.0	8.8	10.3
Basic metals	14.4	2.9	5.7	0.5
Electrical machinery	13.5	13.4	8.7	16.5
Chemicals	11.5	6.0	3.7	8.7
Paper and paper products	11.4	7.4	10.3	4.3
Metal products	10.3	9.6	-7.6	-6.5
Petroleum products	10.2	6.6	23.8	24.6
Non-metallic mineral products	10.0	8.7	-1.0	1.5
Footwear (leather)	9.8	16.0	8.2	7.5
Synthetic fibre	9.8	3.2	-1.2	-0.4
Wood and cork	9.5	14.4	-4.0	6.0
Rubber products	8.9	10.1	0.0	11.5
Transport equipment	8.3	8.6	-9.2	-3.9
General Index	7.4	5.6	2.6	1.4
Cigarettes	7.3	17.2	8.1	-6.6
Mining and quarrying	6.8	9.0	3.3	2.0
Woollen textiles	6.2	-15.5	-5.9	-4.4
Leather	4.2	1.2	-2.8	-1.5
Food processing	3.6	7.5	3.6	-18.0
Cotton textiles	2.7	0.0	-2.8	-1.9
Jute manufactures	2.4	4.0	-16.2	7.2

The diminishing growth impulse did not affect industries uniformly. Viewed in the context of their long-term growth record, the food processing, textile and engineering goods industries suffered a pronounced setback in recent years. In many other industries there was only a moderate slowing down in the rate of increase of production. In sharp contrast, the petroleum products and electrical machinery industries secured increases in output which were large even in relation to their earlier impressive growth record.

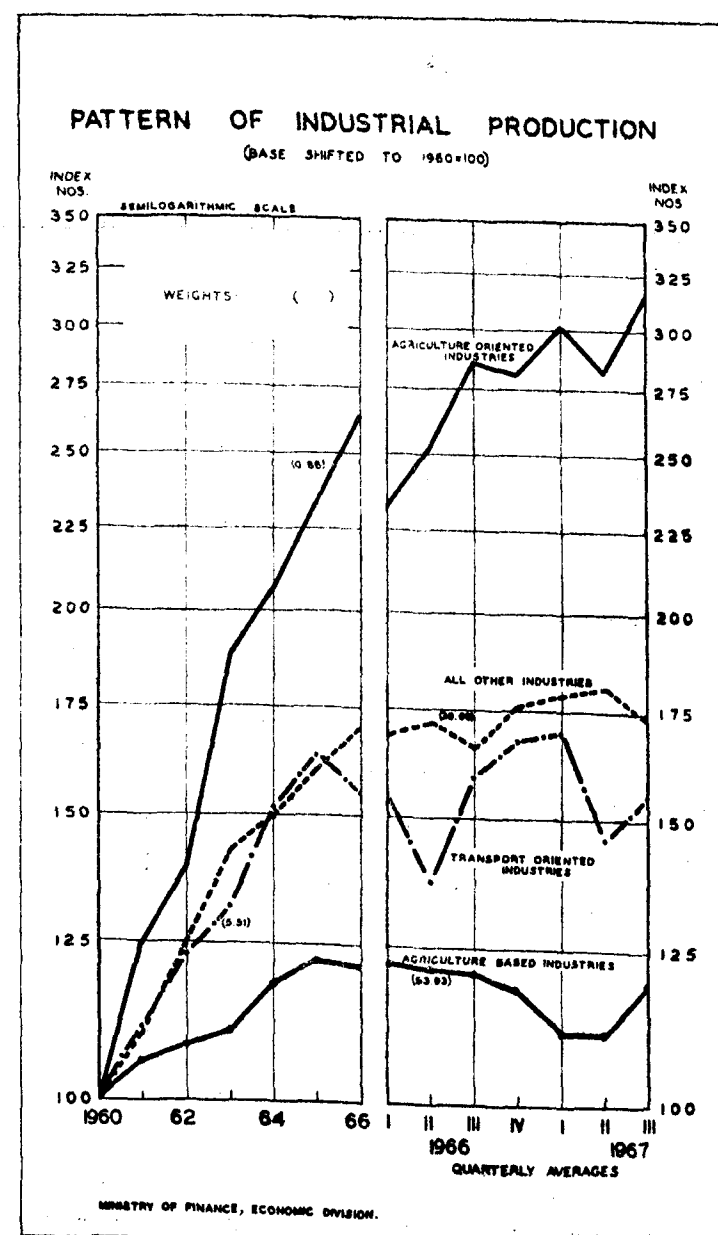
The output of products which may be roughly classified as consumer goods increased by less than 1 per cent in 1966 and then declined by 6.5 per cent during January-September 1967. Similarly, production of capital goods industries, which was rising briskly during the early 'sixties, slowed down perceptibly and then registered a slight decline. On the other hand, intermediate goods production, which constituted more than a quarter of total industrial output, rose by nearly 12 per cent in January-September 1967.

While some industries adjusted to the market situation

by slowing down the level of production others found themselves in the position of carrying burdensome inventories. The ratio of stocks to production rose among others in the case of iron ore, coal, pig iron, finished steel and steel castings. The same tendency was noticeable in certain consumer goods industries such as razor blades, bicycles and clocks.

The setback in industrial output cannot be explained simply in terms of a decline in the general level of demand. Adverse influences on the supply side—reduced availability of imported inputs or indigenous agricultural materials—were equally if not more important.

An important segment of the manufacturing sector depends on the supply of locally produced agricultural materials. Among these industries are cotton and jute textiles, food processing, etc. The output of these agriculture-based industries declined throughout 1966 and during the first half of 1967. This absolute decline in production was caused in large part by the reduced availability of commercial crops owing to widespread harvest failures in 1965-66 and 1966-67. Lower production was compensated to some extent by imports of raw cotton and raw jute. Adverse supply conditions were reflected not only in the form of physical shortages but also in terms of increasing cost of raw materials. The average price level of industrial raw materials



increased by 16 per cent in 1965-66 and by another 21 per cent in 1966-67.

While agriculture-based industries depend largely on local materials, many engineering and chemical industries depend on imported raw materials, components and spare parts. Owing to reduced foreign exchange allocations the supply of these imported items was severely limited in 1965-66 and much of the following year. For example, the value of imported metals and metal manufactures declined from \$405 million in 1960-61 to \$388 million in 1965-66 and \$267 million in the following year. While imports of raw materials, components and spares were liberalised late in 1966, the actual imports materialised with some time lag.

AVAILABILITY** OF INDUSTRIAL INPUTS

	1964-65	1965-66	1966-67	1967-68*
Raw cotton (lakh bales) (Sept. to August)				
Production†	60.0	56.1	56.0	62.7
Imports	8.7	4.8	7.4	n.a.
Availability	93.7	84.9	84.8	n.a.
Raw jute†† (lakh bales) (July-June)				
Production	76.0	57.6	65.6	85.0
Imports	5.3	12.1	15.1	n.a.
Availability	110.1	89.9	91.0	n.a.
Major oilseeds‡ (million tonnes) (July-June)				
Production	10.5	8.0	8.3	10.5
Sugarcane‡‡ (million tonnes) (July-June)				
Production	12.0	12.1	9.5	9.5

* Estimated.

** Availability is defined as production, plus imports, plus opening stocks.

† Trade estimates.

†† Including Mesta.

‡ Groundnuts, rape and mustard, sesamum, linseed, castor seed and cotton seed.

‡‡ In terms of gur.

The harvest failure not only reduced the supply of industrial inputs but also wiped out purchasing power and narrowed the market for manufactured goods. The fall in agricultural output by 16 per cent in 1965-66 must have led to an even sharper contraction of the farmer's marketable surplus of foodgrains. In the following year there was a further slight decline in farm production. To some extent, the effect of the greatly reduced marketable surplus, in 1965-66 and 1966-67, on the farmer's cash income was offset by higher unit realisations. According to national income data, the farmer's average unit realisation rose by nearly 13 per cent in 1965-66 and a further 19 per cent in 1966-67. Owing to lack of data, variations in the marketable surplus of foodgrains and the farmer's cash income cannot be estimated precisely but there is scarcely any doubt that the agriculturist's capacity to purchase manufactures declined appreciably in 1965-66 and probably did not recover adequately in 1966-67.

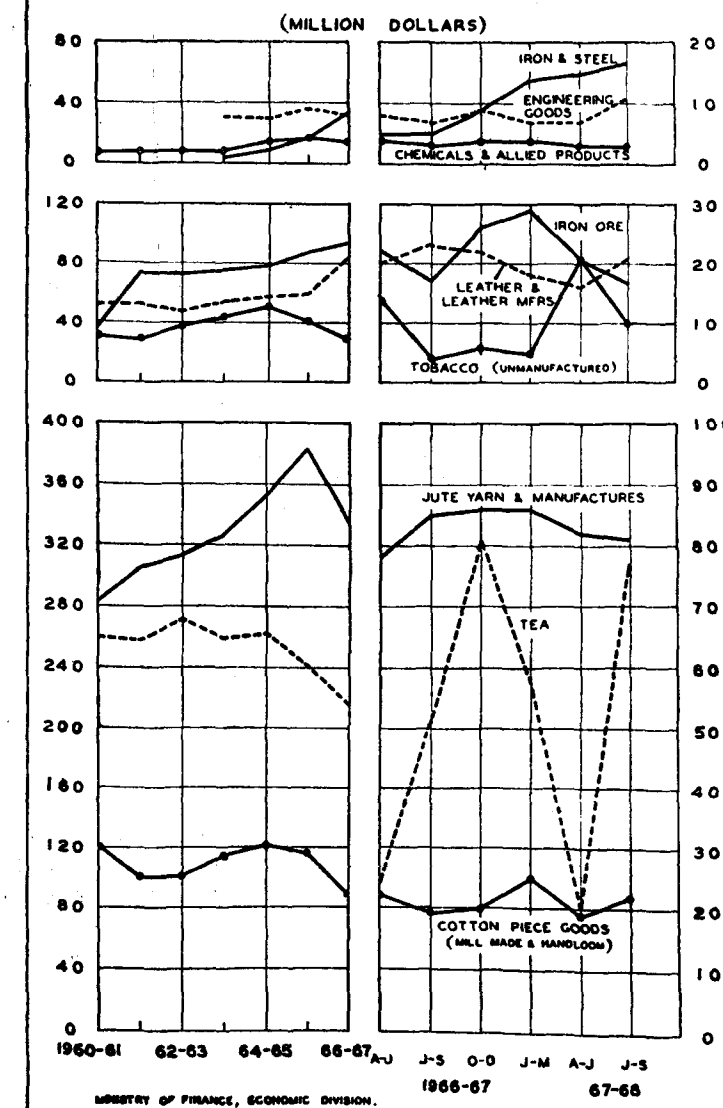
The adverse developments in commodity production depressed the derived demand for transport services and this

was reflected in the behaviour of what may be described as "transport-oriented" industries. Comprising such items as railway wagons, trucks, tyres and tubes, etc., the output of this group of industries declined by nearly 6 per cent in 1966. Production of railway wagons reached a peak of 23,800 in 1964-65 but since then a sharp fall took place. Total output in 1966-67 was only 15,000 units and during the first half of 1967-68 the rate of annual production was no more than 11,000 units. Similarly, output of commercial road vehicles fell from a peak level of 36,900 units in 1964-65 to an annual rate of only 25,600 units in the first half of 1967-68.

The decline in the production of transport equipment was part of a general slowing down in the process of capital formation. The public sector's investment expenditures, which constituted about 66 per cent of total national investment, did not sustain the momentum of expansion built up during the second Plan and the early years of the third Plan. While gross capital formation (in current prices) financed out of the budgetary resources of the central government increased by more than 20 per cent during 1962-63 and nearly 30 per cent in 1963-64, the corresponding proportions in later years were 10 per cent, 7 per cent and 4 per cent. Budget estimates for 1967-68 show an absolute fall of about 8 per cent.

The restraint in government investment outlays was neces-

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situated by the budgetary disequilibrium which emerged in the wake of successive droughts. Purchases of capital goods by the Directorate General of Supplies and Disposals, on behalf of various departments, declined by more than 8 per cent during 1966-67. The slowdown in public spending narrowed the market for various industries in the private sector.

The level of private investment was also subdued. The rise in the rupee cost of imported equipment, uncertainty regarding demand in future years, and the restricted availability of project aid contributed to hesitancy among potential investors in the private sector. The profitability of several industries may also have declined, reducing internal resources available for further investment and discouraging fresh investment decisions. Prior to the devaluation of the Indian rupee, profit margins could in several cases be maintained at high levels, permitting adequate total profits to be earned even with considerable under-utilisation of capacity. Subsequent to devaluation and the adjustment of import tariff, these margins were reduced. While the availability of larger imports of industrial inputs provided the basis for output expansion and maintenance of profits, even with lower margins, several industries could not take full advantage of this in view of slackened demand.

Enhanced Capacity

While investment expenditures in the economy slackened, industrial capacity for the manufacture of capital goods continued to increase. Projects planned in the early or middle 'sixties and which were under construction during the last few years were now getting into production. Many of these schemes were based on assumptions regarding demand for capital goods which reflected the historical experience of rapid expansion. As these projects matured at a time when capital formation was low, they encountered serious marketing problems. To some extent, the problem is sought to be resolved by diversification measures enabling local production of items which are presently purchased abroad.

In those sectors where demand did increase, impressive increases in production occurred. The setback in public and private investment affected adversely the demand for many categories of engineering goods; but the market for agricultural machines and related items showed remarkable resiliency. The group of industries called "agriculture-oriented industries", comprising items such as tractors, stationary diesel engines, power driven pumps and fertiliser, recorded a high rate of growth in the last two years. The production of tractors increased by 133 per cent in 1965, 21 per cent in 1966 and 38 per cent during the first nine months of 1967. This is a reflection of the high priority assigned to agricultural programmes in government budgets. Also there is evidence that private investment in pump sets for minor irrigation and other agricultural equipment had been at a high level.

To recapitulate, the industrial scene was variegated. Industries with high growth rates featured together with others which had suffered an absolute decline in output. In some cases, supply bottlenecks were paramount while in others there had taken place a simultaneous decline in demand for the end-product as well as in supply of the required inputs. In yet other instances a drop in demand was determining factor in the explanation of output changes. Government policy to counter the recession was formulated on the basis of such a diagnosis. The main ingredients of this policy were the following:—

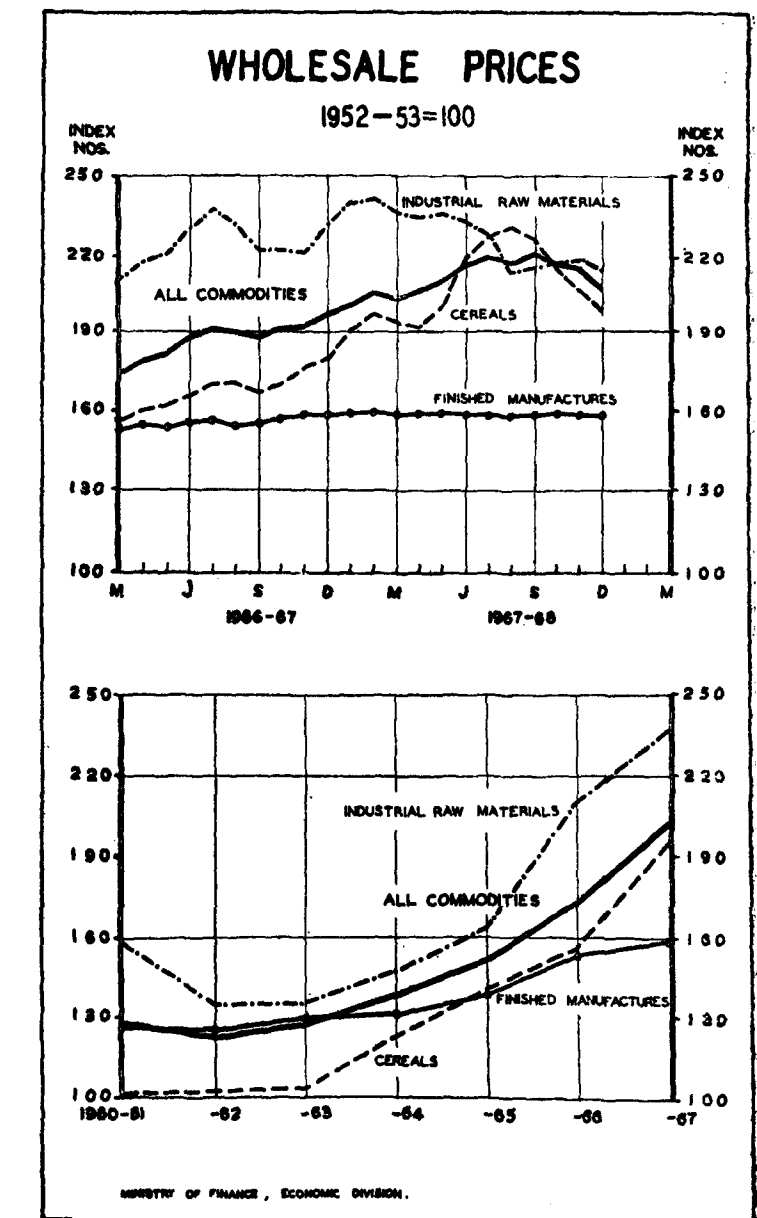
- Continued restraint on aggregate effective demand via fiscal and monetary devices.
- Advance placement of orders on private firms by the public sector.
- Selective credit measures for reviving home demand

for engineering products of high priority.

- Relaxation of controls on industry aimed at facilitating adjustments in production in the light of the market situation.
- Renewed emphasis on export promotion as a means of off-setting the slack in domestic sales of certain articles.

The role of deflationary policies was limited. An expansionary budgetary or credit policy would have led to a significant rise in the demand for wood as well as other agricultural commodities in short supply. As the threat of inflation was very real and as the external payments situation was already strained, the level of total effective demand had to be kept in check.

Short of increasing cash outlays, which could only accentuate the budgetary deficit, government attempted to counteract the adverse impact of uncertainty arising from the hesitant purchase policy of public sector units. The Railways as well as other public authorities were instructed to place firm orders with private firms for delivery in the next fiscal year. Accordingly, the Railways placed orders for 16,000 wagons against the 1968-69 rolling stock programme, although a preliminary assessment of traffic suggested that only 10,000 new wagons



would be required in that year. The Bokaro Steel Plant issued tenders for 150,000 tonnes of structurals. Air-India International placed orders for various types of equipment aggregating nearly Rs 14 lakhs. Hindustan Teleprinters Ltd. and Indian Telephone Industries together placed orders worth Rs 116 lakhs. Orders placed by the Directorate General of Supplies and Disposals on behalf of various government ministries during April-November 1967 totalled Rs 262 crores, compared to Rs 237 crores in the corresponding months of 1966.

Also, an effort was made to revive or stimulate home demand for certain categories of machinery and equipment through selective credit measures. The Industrial Development Bank liberalised the scheme for the deferred payment sales of capital equipment. The minimum amount of transaction eligible for such refinance was abolished in the case of agricultural implements and reduced in other cases in order to widen the range of assistance. The maximum period of deferred payment for which refinance could be granted was extended upto seven years in respect of sales of plant and machinery for jute, textile, sugar, cement and paper industries, costly machine tools and agricultural and allied equipment of a capital goods nature. The rate of rediscount was fixed at 5 per cent and the financing institutions were required not to charge more than 2 per cent above the rediscount rate. The Industrial Development Bank also introduced a scheme for the refinance of loans given by the manufacturers of motor vehicles or approved hire-purchase companies for the sale of motor vehicles to road transport operators in an attempt to revive the demand for commercial vehicles. The rediscount rate was fixed at 6 per cent provided the bank seeking finance did not charge more than 9 per cent. The manufacturers and hire-purchase financing companies were also expected not to charge more than 7½ per cent flat to the road transport operators. The Reserve Bank announced that the increase in advances given by commercial banks to small-scale industries covered by the Credit Guarantee Organisation, would not be taken into account for the purpose of computing the net liquidity ratio of a bank. Re-finance provided by the IDBI under its scheme relating to the deferred payment sales of indigenous machinery went up from a little less than Rs 2 crores in the first quarter of 1967-68 to nearly Rs 4 crores in the third quarter.

Liberalised Regulation

Provisions of the Industries (Development and Regulation) Act were liberalised in mid-1965 and again in October 1966 to allow firms to diversify their output-mix and thus adjust to the new market situation by a better exploitation of existing installed capacity. The scope of the liberalisation was further widened in December 1967. The latest position is that diversification is permitted even if additional imports of raw materials are required, provided the new product is included in the priority list established in mid-1966. If diversification involves the import of balancing equipment, exchange clearance has to be obtained. Once foreign exchange is released, the firm automatically gets an industrial licence. Several public sector firms, notably the Heavy Electricals (India) Ltd have under consideration proposals for diversifying their product-mix. Hindustan Machine Tools Ltd is taking up production of new and sophisticated machine tools such as automats, copying lathes, multi-tool lathes, etc.

A major plank of government policy was to induce industry to seek export outlets wherever home demand was slack but supply conditions were suitable. Such a reformulation of marketing objectives would help to solve simultaneously the temporary problem of excess capacity and the longer-term problem of gaining a foothold in international markets. The export drive was reinforced by a number of credit measures, adjustment in the coverage and rates of cash assistance and other promotional measures.

Just as the successive droughts were responsible in large

measure for the supply and demand constraints slowing down the tempo of industrial production, so also favourable weather conditions in the agricultural sector during 1967-68 should help to bring about a recovery in the growth rate of industry. The speed and the magnitude of this upswing, however, will depend on other factors as well.

The supply capability of most agriculture-based industries should improve considerably as the new crops are marketed. For example, the production of raw cotton is expected to rise by 12 per cent and that of raw jute and oilseeds by 29 per cent and 26 per cent respectively. Sugarcane is an exception as the crop is likely to remain at a low level, but on the whole raw material problems will tend to diminish. Demand for agriculture-based consumer goods should rise simultaneously with supply. Agricultural incomes have risen steeply and total national income is estimated to have risen by about 11 per cent or so. As far as the jute industry is concerned, a large crop and low raw material prices should provide a setting for a vigorous export promotion effort.

Upswing in Production

The production of vanaspati, which had declined by 8 per cent in 1966-67, had recovered in 1967-68 and output during April-November 1967 was some 10 per cent higher compared to the corresponding part of last year. Similarly, the production of tea and coffee has shown a measure of recovery. An upswing in the production of cotton yarn seems to have started recently; whereas production in 1966-67 was 7 per cent lower than in 1964-65 and there had been a further drop in the first half of 1967-68, the movement was reversed in the third quarter of the current fiscal year. Production in October-December 1967 was somewhat higher than in the corresponding months of the preceding year.

The supply conditions of engineering and chemical industries are also favourable. There is a considerable margin of excess capacity in many branches and the liberalisation of import licensing has led to sizable expansion in imports of components and spare parts. Imports of metals and metal manufactures in April-September 1967 were 55 per cent higher than during the corresponding months of 1966. Similarly, the imports of chemicals were more than 60 per cent higher in the first half of 1967-68 than in the earlier half of the previous year. Some signs of revival in production are already there. For instance, the demand for trucks—and, therefore, production—has picked up since September 1967; and the growth rate of chemical industries in general was much higher in January-September 1967 than in 1966. The speed of revival of engineering and chemical industries will be conditioned by the pick-up in business confidence, the level of capital formation and the extent to which progress is made on the export front. Selling abroad will not be an easy task as much of Indian industry has developed in market protected from foreign competition. In this way many imports have been replaced by local production but in terms of price and quality there is considerable room for improvement. Recently, several industries have displayed a serious interest in promoting export sales. This interest must be sustained and stimulated in the period ahead.

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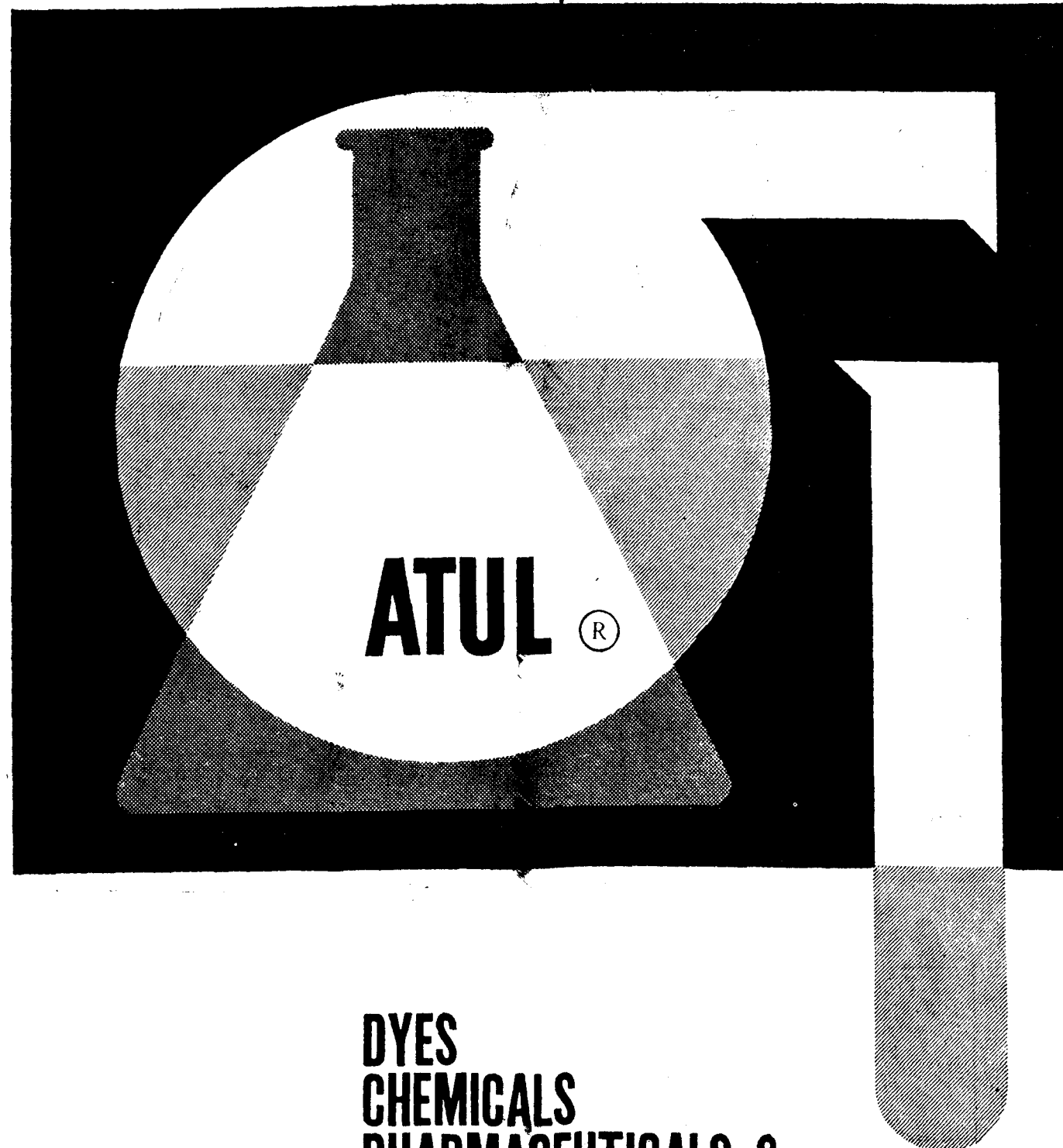
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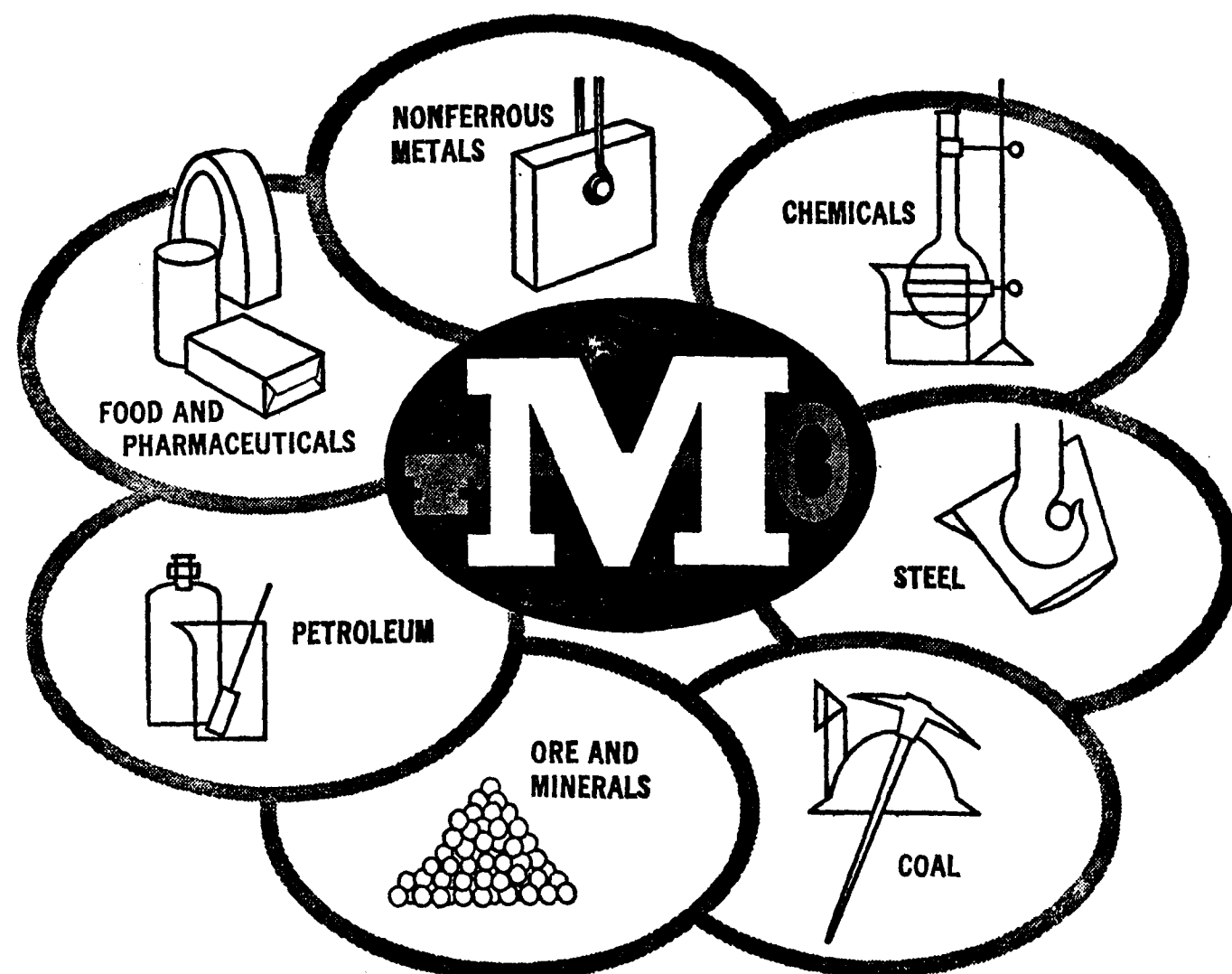
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Man Against Metal

IT IS doubtful that the rest of the world shares the imperturbability of Mr Morarji Desai over the storm raging through the world monetary system. We are not suggesting that India's Finance Minister should have wrung his hands or beaten his breast, but the occasion surely calls for more than the shrug of his shoulders which has been his reaction to it. It is becoming somewhat difficult nowadays to determine when Mr Desai is speaking as Deputy Prime Minister and when as Finance Minister. Perhaps, it was more in the former role that he saw himself when he declared in the Lok Sabha on Monday that the Washington decisions on gold would be of no great consequence for our trade or our balance of payments and that, uneasy though many other currencies might feel, our own rupee was safe, sound and secure in every one of its one hundred paise. May we suggest that when next he talks on the subject he should do so primarily as Finance Minister and after taking more careful counsel with his official advisers in the Finance Ministry, notwithstanding the fact that he is of the belief, as he himself has confessed, that it is a disadvantage to a Finance Minister to be overburdened by economic expertise, whether his own or others?

As for lesser mortals, the thought must be hard to resist that the world's monetary system and therewith the trade and other economic relationships among nations are now in a state of flux, from which this country or its currency cannot hope to enjoy immunity. The fashion at the moment seems to be to cast the responsibility for this crisis in the economic affairs of nations on speculators in gold markets around the world and also condemn the President of France as the wicked vandal who would set fire to a house in order that he might enjoy a quiet smoke. The truth is that it is the government of the United States which is the primary arsonist as it is the principal victim of the conflagration. In the rush of recent events it is apt to be forgotten that Washington's practice, now abandoned, of seeking to stabilise the price of gold, even outside the area of monetary purposes, at US \$35 per fine ounce, is not relevant, let alone basic, to the maintenance of the US dollar's official parity in the world's exchanges. In fact, it was only in 1961 that it extended its obligation to sell from its stocks at Fort Knox gold at its official price for servicing the off-take of the metal for commercial or private buyers in free markets, which meant, in effect, the London gold market, as distinct from its basic undertaking to exchange gold for dollars offered by foreign governments and central banks at the official parity. Whatever justification the US government might have had then for taking this step, it subsequently became clear that, once the US economy started heading into a phase of deepening balance of payment deficits, Washington would be only playing into the hands of those who were committed to seeing the dollar devalued in terms of gold, if it were to stick to its self-imposed mission of repulsing all attacks by hoarders and speculators with indefinite releases of the yellow metal from the vaults at Fort Knox. In the circumstances, it was only a grave error of judgment which could have persuaded the Johnson administration to think through all those wasted years that the prestige of the US dollar or even its own prestige was bound up with keeping up this false front.

It is clear that, at any time in the last six or seven years, the US government could have quietly declined to provision the London gold market without the US dollar having to lose face in the world's exchanges. The pound, perhaps, would have gone under sooner in that case, but it was destined to be devalued anyhow and it is certainly a debatable point whether Britain had gained from the postponement of this day

of reckoning. Looked at in this manner, the decision taken at the meeting of the central bankers of seven countries who conferred in Washington over the weekend to cut off sales of gold from monetary stocks to commercial buyers or private speculators is one which could and should have been taken earlier—at any rate at least when the pound was devalued in November last and speculators in gold could be expected to turn their attention in right earnest to rigging up a run on the US dollar.

The Washington meeting has agreed to leave the price of gold in commercial and private transactions to be decided by the interaction of supply and demand without the governments or central banks of the participating countries taking any part in this business by selling gold from their respective monetary stocks or buying gold in these free markets for adding to their monetary stocks. Considering the high pressure of speculative demand for the yellow metal, prices in the free markets will, no doubt, rule higher than US \$35 per fine ounce, but there is no reason to suppose that this divergence should necessarily be both large and enduring. To the extent that the Washington decisions have taken the pressure of monetary demand for gold off supplies available in the free markets through offerings of newly mined gold or from stocks held by private holders or governments not participating in the Washington arrangement, the level of free gold prices may tend to flatten out over not too long a period. The crux of the matter, of course, is what view speculators in gold tend to take of the possible effectiveness of the Washington decisions in helping the US government to maintain the official parity.

The chances of an American victory here are reasonably good. The Washington agreement, in effect, means that the monetary reserves of gold available with the seven participating governments would be available hereafter for supporting the monetary price of gold at US \$35 per fine ounce. This is the meaning, particularly, of the announcement by the US Federal Reserve Board of an increase by US \$2,275 million to US \$9,355 million in its swap network with 14 central banks and the Bank for International Settlements. This, actually, is a renewable short-term agreement under which the central banks agree among themselves to exchange on request their respective currencies up to a maximum amount over a limited time period. Incidentally, with a view to taking care of the particular weakness of the pound sterling, the Washington meeting has announced additional credits to the British government bringing to \$400 million the total international credits now available to Britain. In an attempt to reinforce this mobilisation of resources for sustaining the international monetary system, the member-countries of the International Monetary Fund are expected to speed up work on establishing the scheme of Special Drawing Rights to supplement gold and dollars as agreed among its member countries in the last annual meeting of the Fund. Simultaneously, it

could legitimately be expected that the government of the United States will put through such fiscal or other measures as may be necessary for warding off domestic inflationary pressures and improving the outlook for the US balance of payments in an orderly manner. In this respect, the gold rush may have done the useful service of administering a shock treatment to the US government in its legislative as well as its executive wing. How profound the impact of recent developments on Britain has been is shown by Mr Jenkins' "do or die" budget decreeing for that country a degree of deflation which has staggered the advocates of austerity both at home and abroad.

A doubt has been expressed that Belgium, the Federal Republic of Germany, Italy, the Netherlands, Switzerland and the United Kingdom (all of which had conferred with the United States at the Washington meeting) may not faithfully carry out their obligations under the Washington proposals for conserving stocks of monetary gold. So far as Britain is concerned the risk is negligible since its own economic survival is tied up with the success of the scheme. As for the five other countries, the United States, it must be noted, is not without sufficient bargaining power for use against them. It is clearly in the interest of all these countries to help Washington to resist the temptation of adopting such restrictive trade or other practices for protecting the US balance of payments as would have adverse repercussions abroad to an extent which might possibly cause more than a little embarrassment to many major west European currencies. We need not therefore take too dim a view of the possibilities of effective west European co-operation with the United States in implementing the Washington scheme.

This would be true even after conceding the fact that there is France—and de Gaulle—to reckon with. It has been suggested that the French President has won at least a partial victory in his campaign against the dollar. What has actually happened, however, is that de Gaulle has won a battle and in doing so has lost the war. His basic aim of foisting the gold standard on the international monetary system has surely become more unlikely of accomplishment as a result of the attitudes so firmly established at the Washington conference. Rather ironically, one consequence of de Gaulle's attempt to impart full monetary status to gold has been to deprive it of some part of such monetary status as it already had. The dual gold marketing and pricing scheme, which is a creature of the Washington meeting, thus represents a rebuff to the gold policy of the French government. President de Gaulle therefore has every reason to be unhappy about the decisions of this conference, but it is unlikely that he would be able to do much to thwart them. Should he insist on converting the US dollars held by the French government into gold at the official parity price, Washington presumably would be free to refuse to oblige him on the ground that the gold is not needed by France for

monetary purposes. The French government, moreover, has already been converting its dollars into gold in a big way and this, again, would limit the extent of mischief it could play in this particular manner in the future.

In any case, French statesmanship is too sensible not to disregard the implications of the fact that its colleagues in the European Economic Community had not hesitated to participate actively in an international economic conference of the importance of the Washington meeting, although France had not been invited to it and in spite of the fact that the conference

Reserve Bank Acts Right

THE DECISION of the Governor of the Reserve Bank to reduce the bank rate by one per cent to 5 per cent in the middle of the busy season has been taken in a somewhat unusual manner, indicating the anxiety of the monetary authorities to ensure that the process of recovery in economic activity is not impeded either by the lack of resources or their dearth. On no occasion in the past has there been a downward adjustment in a busy season. In fact, this is the first time, since the Reserve Bank came into being in the mid-'thirties that the lending rate has moved in a downward direction. Until 1951 there was no attempt to effect a change and the bank rate remained at the level of three per cent. There was no need for tinkering further with this rate till the beginning of the second Plan.

During World War II there was an embarrassing surplus of resources and even a low bank rate of three per cent had been ineffective. Some short-dated loans were floated at 2½ per cent and the colossal funding operation of 3½ per cent irredeemable paper into a three per cent long-term loan was put through successfully. In the early 'fifties also, there was no problem of foreign exchange or rupee funds for implementing Plan schemes. The adjustment in the bank rate was only token. But when prices started rising in the late 'fifties and it became necessary to stimulate savings, the bank rate was raised to four per cent in May 1957 by Mr T. T. Krishnamachari along with the budget proposals for 1957-58. There was a pause for three years, before it was increased to 4½ per cent in January 1963. Thereafter, the changes came in frequent succession with an upward adjustment in the rate to 4½ per cent in January 1963 and five per cent in September 1964. Again, there was a jump to six per cent in February 1965. The monetary screw was tightened ruthlessly as it was somehow felt that the balance of payments difficulties could be rectified with dear money and fantastic increases in import duties. The point was overlooked that the problems of the country were developmental in character and the sharp rise in prices for agricultural commodities was taking place on account of an unprecedented failure of crops. What happened later is common knowledge. The rupee was

had been convened by the United States for the specific purpose of framing a set of measures for the shoring up of the international monetary system against active hostility on the part of France. In fact it seems as if President de Gaulle, who had for long been enjoying some kind of an initiative in the politics of the international monetary system, has now lost it. It is now for the United States and the other west European countries which met in Washington to take such domestic or international action as would discourage President de Gaulle permanently from continuing to act on his belief that the international monetary system can be mended only by being ended.

devalued in June 1966 and there was no change in the credit policy. The consequential adjustments, following costlier imports, were effected in a tardy manner and it is now sadly realised that both devaluation and dear money were improper and that these prescriptions for the ills of our economy had been misconceived.

An attempt is now being made to correct the mistakes arising out of past policies, through direct incentives for exports, a strengthening of the agricultural base, tax concessions and cheaper credit. If the protagonists of devaluation were right, there should have been serious objections to the grant of cash subsidies for a number of export items. These subsidies, however, should not be considered abnormal as home prices are higher than international prices even in many developed countries. In our case, the costs of production have increased unduly because of the compulsion to absorb overhead charges on a restricted output. As there is considerable idle capacity, it will be possible to rationalise manufacturing expenses and reduce unit costs only if the installed capacity could be utilised fully. This aspect of the question has never been realised by the government and its puritan approach to the peculiar economic problems of the country has cost us dearly. When there is a disposition on the part of the developed countries to use their bargaining power against the developing regions for purchasing their tropical products at depressed prices, it is not open to normal market forces to ensure reasonable foreign exchange earnings from exports of primary commodities. The same difficulties will be experienced even when developing nations seek to ship semi-manufactured and manufactured goods. The problems have necessarily to be tackled in the same manner as Japan has done in the past few decades. India will be able to occupy her rightful place in the world economy only with the adoption of a combination of political and economic measures though the accent will have to be all the time on improving efficiency and productivity.

It must be said, however, that the new policy now being pursued by the Governor of the Reserve Bank is a step in the right direction. Even in August last year, it was announced that there would be a liberali-

sation of credit facilities and a dual bank rate would be in operation with a special rediscount rate being available for borrowing by the banking system for priority purposes. The policy for the current busy season was also conceived in a liberal manner as it was stated that borrowings from the central banking institution for priority purposes would be excluded when computing the liquidity ratio. There was also no restriction on the quantum that could be borrowed at the bank rate and the penal interest rates were to be applied in a less punitive manner. These liberal facilities, however, did not create a sufficient impact and the anticipated revival in economic activity has not taken place so far. As there was a pronounced increase in deposits, a slowing down of utilisation of non-project aid and a decline in prices for cash crops, there has been no pressure on the banking system. It was not, therefore, necessary for member-banks to borrow from the Reserve Bank in the current busy season on a large scale. During the week ended March 1, 1968, however, there was a big rise under this head to Rs 89.40 crores from only Rs 17.27 crores and this was followed in the next week by a further rise of Rs 31.68 crores. There may be more increases in these borrowings till the middle of April. But there is no suggestion that an unmanageable squeeze will develop.

Since the anticipated increase in the demand for funds did not materialise, it was thought by Mr L. K. Jha that there should be a further cheapening of credit with a downward adjustment in the structure of interest rates. With the lowering of the bank rate there will also be a reduction in lending and deposit rates. The ceiling rate for advances has been reduced to 9½ per cent from 10 per cent and for both pre-shipment and post-shipment credit to six per cent from seven per cent. The interest rates on term deposits exceeding 91 days have been reduced by ½ per cent while that on savings deposits will be lowered by ½ per cent to 3½ per cent commencing from April 1. These adjustments cannot be considered as keeping in line with the reduction of the bank rate by one per cent. Bankers would seem to have represented to the monetary authorities that severe losses would be sustained by them if their lending rates had to be reduced further without some assistance from the government. Apart from the fact that the previous rates will have to be paid on deposits which will mature only after some time, working expenses have been increasing. The competition for available resources from other directions has also to be borne in mind. Besides, it has been contended that the banking system cannot work in isolation when the government is paying more for attracting small savings and companies are offering very high rates when accepting deposits from the public.

The problem will get sorted out to some extent if there is a vigorous drive for monetisation of the economy and agricultural production is sustained at a high level. In the meantime, a cautious policy

will necessarily have to be pursued in regard to the adjustments in deposit rates. It is important to remember that interest rates will have to be fairly attractive for inducing savings in a country which has differing levels of incomes. But it will have to be studied how the spread between deposit and lending rates can be reduced. This divergence is rather wide at present, many banks even now stipulating that the lending rate should be four per cent higher than the bank rate besides a minimum of nine per cent. There is no doubt only a difference of 1½ per cent between the rediscounting and the lending rates for export purposes. But the losses sustained by the credit institutions are proposed to be offset by subsidies from the government. Since a cheapening of credit in this country can be achieved only through a rationalisation of the methods of working of banks and a reduction in the difference between deposit rates and lending rates, ways and means will have to be explored for reducing the cost of administration of deposit and advance accounts. In that event, there is no reason why, even with the existing deposit rates, there should be a lending rate of 8½ per cent for secured advances. There will probably be a further lowering of lending rates and even deposit rates after some time. The new experiment will take necessarily many months before its beneficial effects are reflected in the form of a higher level of economic activity and the proper utilisation of financial resources. However, it must be acknowledged that the retreat from dear money is sensible and monetary policy is beginning to acquire real significance. If more incentives could be given for stimulating saving and investment, the process of recovery should be considerably hastened.

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Anatomy of the "Gap"

THE DEPUTY Prime Minister, Mr Morarji Desai, has been praised by some and blamed by others for departing from orthodox methods of budgeting and framing the estimates for 1968-69. Even though uncovered gaps are no peculiar features of the central budgets, and much larger overall deficits have emerged in previous years, it is for the first time that Mr Desai has deliberately left open an overall gap of Rs 290 crores, the estimated deficit of Rs 315 crores, before taking into account the new taxation proposals, being brought down only by Rs 25 crores. Out of the additional tax receipts of about Rs 65 crores through the new proposals, roughly Rs 15 crores will be the share of the states. Again, the abolition of the annuity deposit scheme will result in a reduction of capital receipts by Rs 35 crores. This will be offset to some extent by collections under the newly instituted public provident fund scheme for Rs 10 crores. Thus, these adjustments are expected to result in a net reduction in the original overall deficit by only Rs 25 crores.

Eventually, perhaps, the uncovered gap may be smaller than the estimated one. A closer scrutiny of the budget estimates on revenue and capital accounts will show that, against the rather liberal approach adopted on the last occasion when framing the estimates of revenue, there is an exaggerated caution now and in a year of revival, even according to Mr Desai's expectations, revenues have been conservatively estimated. This leads to the question: What is the true character and size of the deficit? A careful examination of the budget estimates for the last two years will show that the projections have been made on a base, which had deteriorated unexpectedly due to the recession and due to heavy expenditure in many directions including subsidies on sales of foodgrains and fertilizers. Large special assistance had also to be given to the states for reducing their unauthorised overdrafts from the Reserve Bank.

Let us analyse first the estimates regarding revenue. In 1967-68, it is shown that there was a sharp setback in collections to Rs 2,361.46 crores (revised estimates from Rs 2,520.79 crores). There was, however, a slight increase in non-tax revenues to Rs 632.18 crores from Rs 607.30 crores, resulting in a net decline in total revenue receipts to Rs 2,812.54 crores from Rs 2,989.57 crores, after allowing for the states' share of taxes. The decline in revenues has been brought about by poor collections under customs duties, there being a drop of as much as Rs 117 crores. Excise duties too fell short of expectations by Rs 24 crores, and taxes on corporate incomes by Rs 31 crores. This was offset only to a slight extent by an increase in income-tax receipts by Rs 10 crores. On the expenditure side too, there has been an increase in the various heads and the total has risen to Rs 2,725.45 crores from Rs 2,686.06 crores. Thus, with a deterioration in the revenues and a higher level of expenditure, the surplus on revenue

account has dwindled to Rs 87.09 crores from Rs 303.51 crores.

It had been hoped that there would be an overall surplus of Rs 71 lakhs, while the deficit is expected to be now as much as Rs 295 crores. It may well happen that the final deficit will be very much less than this figure, as it had always come about in the past that in the actual accounts there was an improvement in the position. It is also necessary to remember that this deficit was brought about by an expenditure of Rs 106 crores through subsidising sales of foodgrains. There was thus creation of currency for meeting the deficit of only Rs 189 crores. Also, if states had not been profligate, the original estimates would not have been so badly distorted. There had to be an increase in the assistance to states for wiping out overdrafts from the Reserve Bank by Rs 50 crores to Rs 100 crores. If it was not necessary to extend this assistance, creation of currency would have been only for Rs 89 crores.

What is really important from the point of view of the budget estimates for the next financial year, is a projection of these estimates from a low base, which was exceptional in more than one sense. It is assumed that receipts from customs duties in 1968-69 will be only about the same as in the revised estimates for 1967-68 and that there will also be an increase of only about Rs 86 crores in excise duties. Taxes on corporate and personal incomes are expected to fetch about the same amount as in the past year, as many industries have not fared well. Thus revenues on the basis of existing taxation were estimated to be only Rs 2,458.81 crores, against Rs 2,361.46 crores (revised estimates) and credit has been taken for additional taxation for Rs 58.89 crores. It is hard to visualize that, even the budget estimates for 1967-68 of Rs 2,520.79 crores will not be realised, as there will be larger consumption of many excised commodities and foreign aid utilisation also will be on a much larger scale, leading to a higher level of imports and therefore in revenues. As there has also been an increase in expenditure by nearly Rs 171 crores, the surplus on revenue account is placed even lower at Rs 80.19 crores against Rs 87.09 crores. This will increase to Rs 130.92 crores on account of the new tax proposals. As it is anticipated that there will be a smaller net borrowing through open market loans and there will not be any significant increase in other receipts in the capital budget, the overall deficit for the next financial year will be little more than in the current year.

There can be an increase in revenue by nearly Rs 100 crores and the net borrowing can be easily Rs 125 crores against the assumed figure of Rs 63 crores, (the net borrowing for 1967-68 was Rs 94 crores). The overall deficit may not be more than Rs 128 crores. If the outlay of Rs 140 crores in buffer stocks, which will have no inflationary significance in case it is created out of PL 480 grain, is excluded, there will be actually a surplus of Rs 12 crores.

Some Thoughts on the Central Budget

I. J. SINGH

(U.P. Agricultural University, Pantnagar, Nainital)

THE CENTRAL budget for 1968-69 aims to restore climate for economic stability by mobilizing the country's resources in a non-inflationary manner. It also aims at stimulating the aggregate demand, promote exports, increase agricultural and industrial production, maintain price stability and create climate for savings and investment, thus increasing the present level of employment and economic growth.

As a result of larger spending by government in the last five years, the economy has been ailing from two economic paradoxes—one, the rise in agricultural prices in spite of good harvests in 1964 and 1965, and two, the recession in industrial production. The benefits of larger spending by government have gone to agriculture. As a result the industry has been pushed into a recession and agriculture into inflation. The reconciliation of the two-pronged economic paradox is to be brought by achievement and maintenance of sizable level of employment and economic growth—a sizable level of employment and economic growth being one which a country can afford with its available resources—, the prevention and control of recession during inflationary conditions and the promotion and encouragement of the rate of growth of real Gross National Product (GNP). The achievement of these goals was the main theme of Mr Desai's budget speech on February 29.

The maintenance of sizable employment requires that total spending of the economy, at all times, must be at a level sufficient to absorb the growing labour force into productive employment. Since part of the total spending is on investment, the productive capacity of the nation also expands with the passage of time. Therefore the total spending necessary for sizable employment increases year after year. The role of the policy-maker, in a non-totalitarian society such as ours, is to mobilize national resources and fiscal operations in such a manner as to maintain total effective aggregate demand (total spending) in the economy at a level consistent with sizable employment. If effective demand falls short of this level, for any length of time, unemployment and depression will result. On the other hand, if the total spending of the economy is substantially in excess of the amount necessary for sizable employment, then an inflationary spiral of rising prices is likely to set in. This we have been experiencing since last several years.

Increasing Investment Component

If in addition to maintaining sizable employment, and preventing inflation, a high rate of economic growth is desired, then a fiscal policy should be directed to the increasing investment component of the national output. By increasing the national receipts through various tax levies, Mr Desai has tried to achieve this objective.

A closed economy is being assumed throughout this discussion.

When gross national product (Y) is viewed as the aggregate expenditure on output incurred by the consumption sector (C), the business sector (I) and government sector (G), it can be represented as:

$$Y = C + I + G \quad (1)$$

The flow of GNP that results from these expenditures may also be looked upon as the total disposable income received by

the three categories of income receivers—individuals, businessmen and government. The disposable income of individuals may be represented as $(C+Sp)$, where C represents personal consumption and Sp personal savings. Sb represents the disposable income of business, and refers to the depreciation allowance and undistributed profits of business which remain after all operating expenses and business transfer payments have been met and after dividends have been paid. Tn is the net tax receipts of government and is equal to the total tax receipts minus governmental transfer payments. Therefore, viewed as total disposable income accrued, the Gross National Product,

$$Y = (C+Sp) + Sb + Tn \quad (2)$$

or,

$$C + I + G = (C+Sp) + Sb + Tn \quad (3)$$

The above equality merely states that ex-post (after a period is completed), the aggregate expenditure which has given rise to GNP must be equal to the aggregate disposable income received by the three categories of income receivers. The 1968-69 budget at least in part intends to achieve this goal by the end of 1968-69.

In a planned or ex-ante sense, of course, the two sides of the equation may differ and the intersection of the total ex-

NEW DELHI, March 5—The Lok Sabha will have a one-hour discussion at a later date on the losses suffered by the three public sector steel plants of Bhilai, Durgapur and Rourkela.



"Would you like to adjourn the steel plants indefinitely till order is restored?"

penditure schedule $(C+I+G)$ and the total (disposable) income schedule $(C+Sp+Sb+Tn)$ gives the equilibrium national income.

Let us assume that the business sector is unable to make exorbitant profits. (This assumption is consistent with the text of the 1968-69 budget.) Thus $S=0$ and $S=S [S=Sp+Sb+Sg]$, where Sg (government saving) is positive when there is a budget surplus, negative when there is a deficit budget and 0 when there is balanced budget. The budget presented to Parliament on February 29, shows a deficit of Rs 290 crores.] Then the equilibrium condition becomes:

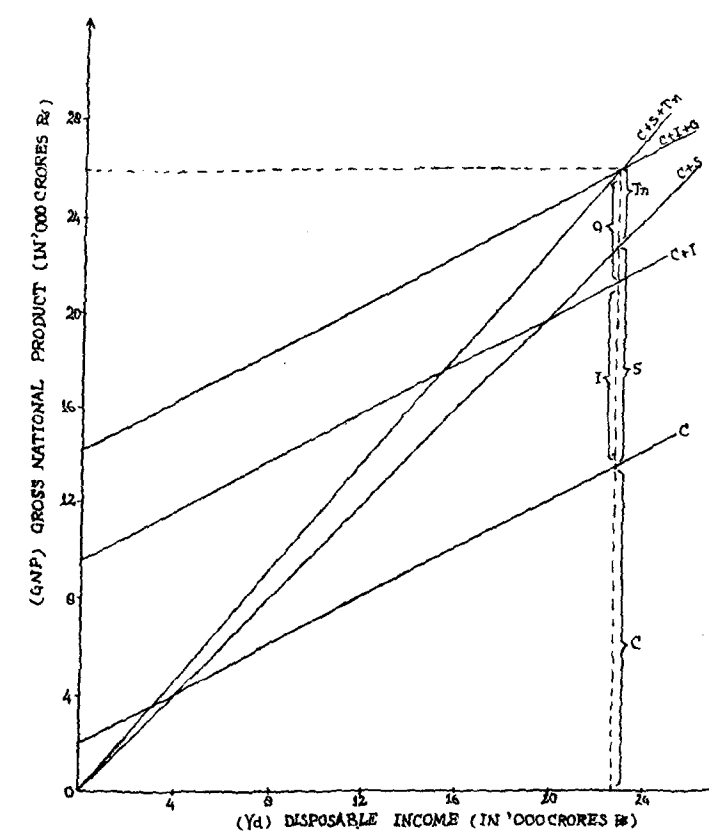
$$C + I + G = C + S + Tn \quad (4)$$

If we subtract C from both sides, we establish the relationship:

$$I + G = S + Tn \quad (5)$$

or transposing $I - S = Tn - G \quad (6)$

SIZABLE EMPLOYMENT AND ECONOMIC GROWTH THROUGH THE DEFICIT BUDGET DURING 1968-69



A diagrammatic representation of aggregate equilibrium is attempted above. In this model, the disposable income represented horizontally in our diagram is the difference between gross national product (Y) and net taxation (i.e. $Y_d = Y - T_n$). T_n has been calculated by subtracting governmental transfer payments from total tax receipts.

The equilibrium national income, of course, does not guarantee full or sizable employment. The task of fiscal policy is to make the economy reach equilibrium at a level of national income consistent with full or sizable employment.

We may safely assume that our democratic government has command over powerful fiscal instruments for the attainment of the goals of public policy. The public sector in the

economy accounts for only about 12 per cent of the GNP. However, the spending and taxing powers of our government can be effectively employed to regulate the magnitude and composition of total effective demand according to the requirements of sizable employment and economic growth.

The diagram shows the attainment of sizable employment through a deficit budget by the device of an increase in G, and a reduction in taxation. This diagram, which is based on the following table, indicates that G along with private investment during 1968-69 will yield a GNP (Y) of approximately Rs 26,000 crores at current prices with an estimated disposable income (Y_d) of Rs 22,800 crores. The diagram also shows that consumption expenditure and savings by the end of 1968-69 fiscal year will be Rs 13,690 crores and Rs 9,124 crores respectively.

MECHANISM OF THE DEFICIT BUDGET*

(IN '000 CRORES ₹)					
GNP	C	I	G	S	Tn
(Y = C+I+G)	(C = 2+3/5 Yd)	(I = 2+3/5 Yd)	(G = 2+3/5 Yd)	(S = 2+3/5 Yd)	(Tn = 2+3/5 Yd)
26,000.00	3185.46	22,814.54	15,890.75	7,608.81	4,700.46

a/ & b/ Estimated total tax receipts in 1968-69 budget amount to Rs 4,385.46 crores. Next year's Gross National Product and governmental transfer payments at existing levels are estimated at Rs 26,000 crores and Rs 1,200 crores respectively. Subtracting Rs 1,200 crores as the transfer payments of government from the total tax receipts, net tax receipts (T_n) of government is Rs 3185.46 crores.

* $C = 2 + 3/5 Y_d$, where 2 stands for Rs 2000 crores as fixed consumption expenses and $3/5$ denotes that 60 per cent of the disposable income will be spent on food items during 1968-69.

Here it should be emphasized that the size of G is of critical importance to the determination of the level of national income irrespective of the nature of the budget. We have to undeceive our minds of the notion that a deficit budget is inherently inflationary. To the extent that the level of the national income is determined by $(C+I+G)$, the size of G is a critical factor in the determination of equilibrium income. If the size of G is not large enough to make $(C+I+G)$ yield a level of national income adequate for sizable employment, then even a deficit budget is compatible with a deflationary situation. In the Great Depression of the 1930's most countries had deficit budgets.

Conclusion

The possibility of attaining sizable employment and economic growth without inflation through a deficit budget has been demonstrated above. It should however be stressed that this will depend substantially on the economic and political situation within the country and our relations with the neighbouring countries.

It is of the utmost importance that we should realize that a balanced budget (or a surplus budget) is not necessarily the hallmark of financial virtue. The decision to attain sizable employment through a particular type of budget should largely be based on the desired level of government participation in the economy, and the impact the budget is likely to have on the money supply of the economy.

Madras Goes in for a Conservative Budget

K. SANTHANAM

WHILE THE Chief Minister of Madras may appear to be taking a rather extreme line with respect to the issues of language and centre-state relations, he is particularly anxious that the administration of his state should be conducted in accordance with orthodox and approved principles. The budget which he presented on February 28, amply proves this. He has taken great care to see that the budget is balanced both on the revenue and the capital sides. In sharp contrast to the deficits of Rs 7.86 crores in 1965-66 and Rs 6.87 crores in 1966-67, the revised estimates for 1967-68 show an actual reduction of the estimated deficit of Rs 1.12 crores to Rs 45 lakhs. For 1968-69, he has actually budgeted a surplus of Rs 74 lakhs in the revenue budget and of just over a crore of rupees in the combined revenue and capital budget. In the case of a government which has just come to power, this is a very conservative approach indeed.

The total revenue of Madras state was a little over Rs 16 crores in 1938-39 and Rs 80.5 crores in 1959-60. That it should grow to Rs 247.5 crores in 1968-69 is indeed a remarkable achievement. The major items of revenue from state sources are: Sales tax Rs 65.5 crores, tax on vehicles Rs 17.6 crores, land revenue including agricultural income-tax Rs 8 crores and other taxes Rs 17 crores, interest repayments Rs 26 crores, and gross receipts from transport schemes Rs 15 crores. Revenue receipts from the centre consist of Rs 12.5 crores from income-tax, Rs 20.5 crores from union excise duties and Rs 27 crores from grants-in-aid. On the expenditure side, the big items are education Rs 56 crores, medical and public health Rs 18 crores, agriculture Rs 14 crores, general administration, police, jails etc Rs 25 crores, and interest on debt and other obligations Rs 25 crores. The fact that receipts and payments on account of interest are equal indicates that the capital expenditure by the state has been on the whole prudent. This is fortified by the balance sheet which is attached as an appendix to the budget speech. On the liabilities side are to be found loans from the Government of India Rs 329 crores, open market loans Rs 130 crores and including miscellaneous funds and deposits, the total is Rs 512 crores. On the assets side, loans to the electricity board amount to Rs 214 crores and other loans advanced presumably to local bodies and agriculturists Rs 132 crores. An item under the caption 'Capital Expenditure' accounts for Rs 282 crores. There is no information as to how much of this capital expenditure is productive but as the total assets exceed the liabilities, by nearly Rs 124 crores, there can be no doubt about the solvency of the state.

Plan Expenditure

So far as the Plan expenditure is concerned, the revised estimates show an expenditure of Rs 88 crores for 1967-68 against a budget estimate of Rs 85 crores and for 1968-69, this has been further reduced to Rs 80 crores. The two together amount to less than one-third of the proposed expenditure of Rs 564 crores for the fourth five-year Plan.

Thus from the point of view of solvency and sound finances, the Madras budget is altogether satisfactory and may prove to be the best state budget of the country. At the same time, it has to be confessed that it is a mark-time budget in which many social development departments are being starved. Thus the expenditure on community development projects, national extension services and local development works has been reduced from Rs 7.5 crores in 1965-66 to Rs 5.6 crores in 1968-69. Similarly, the allotment for roads is not adequate. Unfortunately, the Madras government has had to incur ex-

penditure of over Rs 5 crores in 1968-69 on subsidy on grain sold at ration shops and this is expected to increase to Rs 7 crores in the coming year. There is no justification for continuing this scheme but the government is afraid that if it gives up the subsidy, its popularity may suffer. Its Congress critics will not fail to exploit it to the utmost. Another bee in the bonnet of the present government is the taking over of bus routes under state management. It cannot be said that the transport undertakings of the Madras government are not working satisfactorily. But there is so much work to be done, particularly in the fields of irrigation, sanitation and development of industries, that it is a pity the government should unnecessarily burden itself with a routine service such as bus transport in which private undertakings in this state have an excellent record.

Union-State Relations

A considerable part of the speech of the Chief Minister who is also the Finance Minister refers to the union-state relations. Some of his grievances, particularly in relation to the rate of interest and repayment conditions of central loans, revision of dearness allowance by central government which has to be followed by the state governments, and undue laxity in favour of states which have mismanaged their finances and overdrawn their accounts with the Reserve Bank of India, are justified. It is time that the financial relations are reviewed so as to ensure greater financial autonomy to the states and the present embarrassing creditor-debtor relations are replaced by better arrangements. While such reform is necessary, I am not sure that the actual devolution of the finances from the centre to the states can be of a larger order than at present. The anxiety to push forward a totalitarian plan has resulted in massive transfer of revenue and capital from the centre and encouraged the states to indulge in expanding social services at a rate disproportionate to the capacity of the people to pay for them and in unproductive capital expenditure which yields no revenue and on which the states have to pay interest and which have to be repaid in instalments. Real financial autonomy for the states will lead not only to better union-state relations but also to greater economy and sense of responsibility on the part of the state governments.

Eastern Economist 20 Years Ago

MARCH 19, 1948

The almost interminable Chinese Civil War is, presently, reaching out for a new climax and its trend is against the Kuomintang. Manchuria is as good as gone and the National Government's grip over some major towns like Mukden and Changchun has been rather tenuous. And while Government forces are pre-occupied in Manchuria the fire threatens to spread to vaster areas. In Shantung, for example, Communist strength seems to be in the ascendant. The political outlook in China is thus uncertain and the end to her political struggle is not yet in sight. It has been a characteristic feature of her civil war that its fortunes sway and the gods take kindly now to this side, now to the other. Tossed between these changing tides of warfare, the people of China must go on without any hope for the future.

The Dollar at Bay

Our Special Correspondent

THAT TEAMS of experts from the International Monetary Fund and the OECD had close consultations with the UK Chancellor before he formulated his budget was not only because, in their capacities as creditors who had lent, or promised, the British \$7,000 millions, they wanted to make sure that their debtors would adopt sound policies. Just as important to them was that the prosperity of the UK economy and the stability of the £ are closely related to the prosperity and stability of the entire internationally trading world.

The experts of the IMF, as guardians of the existing world monetary system, are concerned to help member countries in temporary balance of payments difficulties in order to maintain fixed and agreed exchange rates.

The experts of the OECD are concerned with the internal full employment and growth policies of member countries in order to try to prevent them from spreading inflation by persisting balance of payments deficits or from spreading deflation by persistent surpluses.

Many people fear that apparently incurable imbalances between the hitherto persisting deficits of the UK and the USA—the two reserve currency countries—and the surplus continental European countries now threaten the whole postwar system of international exchanges, which has done so much to promote recovery and to spread prosperity. They fear that the ad hoc efforts of the UK and the USA to cure their deficits may lead to international deflation if the surplus countries retaliate against the UK devaluation and more especially against the USA's restrictions on capital exports and tourists, proposals to set up import surcharges, talk of demonetising gold, etc. The risk is that free multilateral trade and stable international exchange rates will gradually yield to the exchange controls, quotas, protectionism, and other restrictions that bogged the world down in depression between the wars.

Those who fear such a catastrophe point out that its possibility arises from three weaknesses in the postwar system: (1) the virtual impossibility of adjusting the exchange rate of the two reserve currencies; (2) the prosperity and financial stability of Europe has become dependent on the persistent US deficit financed in dollars; (3) the absence of a world monetary authority capable of adjusting the supply of world money, which the central banks are willing to hold in their reserves, to the needs of an expanding world economy.

Dollar Balances

The £'s forced devaluation has passed on to other countries the pressures which had previously forced Stop-Go policies on the UK economy. The increasing reluctance of the surplus countries to accept dollars in settlement of the persisting US deficit threatens the present dollar price of gold on which the existing international monetary system is based. Altogether the USA has accumulated some \$33,812 millions of potential long and short term foreign claims on their US gold stock, now standing at \$10,000 millions. About half is held in private hands and about half by central banks, which are entitled to exchange the dollars for gold on demand. The reluctance of foreigners to add to their dollar holdings threatens the world's principal existing source of new international liquidity.

All this makes some surplus governments hesitate to follow expansionary policies and threatens to provoke national efforts to restrict their domestic credit in order to reduce their imports and so defend their reserves. Even the

world's richest nation has at long last found it impossible to enjoy guns and butter simultaneously. US military expenditure overseas at \$3,694 millions in 1966 is officially estimated to rise by another \$3,300 million in 1969. Prices and wages have been spiralling: in 1967 the average wage increase in new contracts was 5.6 per cent against 4.5 per cent in 1966 and in recent months it has jumped to six per cent. Productivity rose by less than two per cent in 1967 against over five per cent in 1962. The dollar's domestic buying power fell three per cent in 1967. If present policies remain unchanged, the balance of payments deficit may be around \$2,000 millions this year, and the current budget deficit may be \$16,000 millions or more.

Investment Curbs

To meet this situation, President Johnson put curbs on direct overseas investment, asked Congress for a graduated tax on tourists' foreign expenditure and for a 10 per cent surcharge on corporate and individual incomes. The investment curbs may yield \$1,000 million in 1963, but Congress is reported to be unlikely to tax tourists' expenditure, and Mr Wilbur Mills, the chairman of the powerful Ways and Means Committee, resists the tax increase. This is not whimsicality on Mr Mills' part. He believes that if an economy is to be dynamic it cannot depend on government spending and that the private sector must expand faster than the public sector. The government, he says, is not entitled to all of the increment that comes from rising tax yields in an expanding economy. On the contrary, as tax yields rise, tax rates should be cut to benefit the private sector, because it is this sector which makes wealth grow and pays for defence and social expenditure and all government agencies. The Administration promises to reduce expenditure and claims that, allowing that the new 10 per cent tax yields an estimated \$6,300 millions, this would reduce the budget deficit from \$29,000 millions to \$16,000 millions. To which Mr Mills replies: "Show me exactly what expenditure cuts you propose. If I'm going to be for increased taxation, I want assurances that it will be temporary. We can't raise enough money fast enough to police the world, live well, and fly to the moon without piling up unacceptable deficits." Mr Mills denies that the tax increase would have any real effect on the balance of payments in the short run. I agree with him that what worries Europe is not so much the prospects of the tax bill as the excessive rate of US overseas spending. His last word is: "A deficit can be reduced by reducing expenditure much better than by raising more revenue."

All this adds up to deadlock.

It is therefore no wonder that prominent Americans have now got around to debating the hitherto unmentionable—a change in the dollar's gold price. Senator Jacob Javits recently called for a halt to US gold sales. Mr William Butler, Chase Manhattan's senior economist, and Mr Eugene Birnbaum, senior economist of Standard Oil (New Jersey) have proposed the same. In a powerful and readable article by John Davenport in its February issue, 'Fortune', the USA's leading magazine of business, debates devaluing the dollar and assesses sympathetically the scheme to revalue gold stocks, advocated by France's leading economist, Jacques Rueff.

Last December, in a hard-hitting address, called "The dollar at Bay" Mr George Moore, Chairman of the First National City Bank, argued against raising the price of gold, but he added, significantly, "I would be less than honest if I did not point out that when men fail to act effectively, events

have a way of making decisions such as this for us... With price and wage inflation accelerating at the present rate, it is unrealistic for anyone to say that the price of gold is never going to rise above the price fixed in 1933 when industrial wages were \$1 an hour." All the evidence suggests that the present price of gold is unreal if gold is to continue to fulfill its three-fold function, i.e., (1) to satisfy industrial demand, which has, of course, been boosted by the artificial cheapness of gold at \$35, (2) to act as a store for those whom all experience has taught to distrust paper currencies, and (3) to provide what continues to be the only universally acceptable means of settling differences in surpluses and deficits between countries.

Gold not the Villain

It is not gold which causes the problem of the present international monetary system. It is the acknowledged shortage of gold for monetary and other purposes at its present price. "For this reason," says Mr Davenport, "those who favour revaluing gold upwards by concerted international action deserve better than jeers about 'rewarding speculators and gold mining interests'."

Washington has great faith in supplementing present gold supplies with "paper gold"—the new special drawing rights (SDR) on the IMF proposed at the Rio de Janeiro conference. But this scheme is likely to remain an economist's pipe-dream for as far ahead as one can look. How quickly can you see the nations accustoming themselves to accept "paper gold" in their reserves? And note that the SDR plan aims slowly to increase international liquidity after (not before) the health of the dollar has been restored. The immediate need is not for more paper liquidity but for prompter settlement, in an acceptable medium, of deficits in international balances. The USA, like India, France, the UK or any other country in the world, must in one way or another, accommodate its domestic policies—government expenditure on defence, social security, etc., and wage and salary rises—to its real position in the world. One would enjoy owning a Rolls Royce, but one can't because one has to earn enough to be able to buy and maintain it. So with the nations.

What Would Keynes Have Done?

This, as Mr Davenport points out, was the basis of the postwar system established at Bretton Woods. It requires all countries to obey the rules agreed upon there. No country is powerful enough to disregard them. If anyone at Bretton Woods had argued that a great nation like the USA could run a ten-year balance of payments deficit and cap this with a \$15,000 millions deficit in its budget, he would have been laughed out of court. Not even Keynes, who wanted a looser system of international payments, rejected long-term settlement of balances. Looking at inflation-wracked Europe just before his death, Keynes reminded the more reckless "Keynesians" of the virtues of what he himself called the "classical medicine"—fiscal and monetary restraint.

Today it is the USA which needs this medicine if it is to quell domestic inflation and restore confidence in the dollar abroad. "Appallingly" (Mr Davenport's word), the Administration has chosen an opposite course—the imposition of just those direct controls over its foreign payments which it was the purpose of Bretton Woods to eliminate. Despite evidence to the contrary, this lurch to controls is explained as the only way of "saving" the present system. Yet when controls include restraints on the movement of capital, when Americans are told that it is unpatriotic to travel too much abroad, when officials hint at the need for new import surcharges, then one must ask whether the game is worth the candle. For the aim of any international monetary system—whether based on gold or not, and whether implying fixed or floating rates—

is, after all, to promote an ordered freedom in private transactions, not to maintain a facade of freedom under increasing government regulations—regulations all the more dangerous because, the record of history shows, exchange controls on foreign transactions lead to, and encourage, creeping multiplication of direct controls at home. "If this is to be the end of the story," Mr Davenport concludes, "we could well end up with an empty husk in our hands. We will have kept the system going, but we will have drained it of its meaning, purpose and promise."

From the point of view of the world, and of the existing international monetary system, the solutions for our present ills would seem to be:

1. The UK's policies must be grim enough adequately to restrict domestic consumption to divert goods and services to exports to earn enough to repay debts incurred, or stand-by credits promised, to the extent of \$7,000 millions, and to accumulate reserves sufficient to provide working balances to cover the fluctuations of UK foreign trade from year to year and, over and above, to attain the point at which sterling held as reserves by central banks once again becomes a first class asset, and thus, by eliminating intermittent crises of confidence in sterling which provoke Stop and Go, to contribute to the expansion of world liquidity in step with the growth of world trade.

The "Classical Medicine"

2. The prescription for the USA is identical with that for the UK above—how are the Mighty fallen! The USA must accept the fact that they cannot have guns and butter. Domestically, they must apply Keynes' "classical medicine"—fiscal and monetary restraint. Externally, they must follow the historic precedents of the Roman and British empires and recall substantial numbers of their legions from overseas. They should not keep postponing the inevitable until they are forced into unplanned panic measures, comparable to the UK's hasty withdrawals east of Suez, capped by a flurried devaluation. Instead, they should announce withdrawal as a considered policy to be carried out in consultation with Japan and the countries of south-east Asia. It is by no means impossible that these countries would invite the USA to maintain in their area some kind of presence to which, of course, they would have to make their contribution.

3. Faced with realistic policies in the UK and the USA, and invited to collaborate in support of international stability, there is much evidence to suggest that the countries of Europe, even including France, would respond by refraining from unilateral, nationalistic, protectionist measures, and would reflate their economies to a point at which the imbalance of European surpluses and UK/USA deficits would yield to equilibrium, with national reserves maintained at realistic working levels.

Many economists in the USA and Europe would add a fourth point, namely, that liquidity shortages should be eliminated by creating a new world currency through the Rio de Janeiro IMF/SDR scheme. If, however, the UK and the USA pursue realistic policies, in keeping with their true economic positions, which end their present persisting deficits and restore confidence in the two reserve currencies, the so-called liquidity shortage would—providing gold reserves were revalued—vanish and would be replaced by an orderly expansion of credit. (After all, the only countries which, under present circumstances, are worried by the possibility of liquidity shortages, are the UK and the USA. Their shortage arise because they have hitherto wanted to go on spending more than they earn and their creditors have begun to call in their debts!) Continuing stability can only be achieved if the price of gold is raised to its true 1968 value as revealed by supply and demand.

The Truth Behind the Gold Rush

Dr B. S. GILANI

THE SCRAMBLE for gold in Europe and elsewhere and the closure of banks and bullion markets highlights the world's growing disenchantment with the US dollar. There is a run on this paper currency, outside the United States. The rush for gold is only consequential.

Governments, bankers and the international financial institutions had long been aware of the corrosive malaise that was eating into an otherwise sturdy currency and warnings were sounded in various quarters from time to time. Unfortunately this monetary anaemia was overlooked by chauvinistic diplomacy on one side of the Atlantic and an inexplicable mishandling of the evolution of post-war European hegemony on the other side. The trouble itself was made light of. But in course of time all countries on the continent had to contend with an unending stream of paper dollars as the deficits in the American balance of payment accounts kept mounting—from less than \$15,000 million in the late 'fifties to near \$33,000 million at the end of 1967—with prospects of further and increased deficits (estimated at over \$2,250 million in 1968), due, among other reasons, to the mounting costs of the American involvement in Vietnam. The West German government had to lie low as it was forced to hold the American paper dollars in its reserves under the terms of the post-war settlements. Not so the French who were not only dead opposed to the American intervention in Vietnam but saw no reason why they should allow an alien and uncontrolled currency to foul their economy. They were blunt about it: "If the Americans must fight in Vietnam, they must pay for it in gold and not load the others with their paper money". The denigration of the dollar had begun.

Serious Grievance

The Europeans nursed another and more serious grievance: the circulation of an alien currency, over which they could exercise no effective control, created mounting inflationary problems in their countries that could not be checked while it kept pouring in. The French government took the earliest initiatives; it served notice on the Americans to withdraw their armed forces from French soil and then removed the NATO headquarters from Paris altogether. This was followed by a ban on American investments in French industry and thereafter, from about mid-1966, France began unloading its paper dollars in return for encashment in gold. The lead was taken by others and when the pound went under and was devalued late last year, the fever caught on everywhere involving the paper dollar also. Among those who unloaded their holdings in recent weeks were the many Arab Sheikhs in and around the Persian Gulf, the bullion brokers in Hong Kong and Macao (presumably operating on behalf of the Chinese government in Peking) and a number of known and unknown bankers and bullion merchants, including the celebrated, "gnomes of Zurich". It is significant that in the short period of this gold rush, the more serious aspect of inflationary trends have already begun moving in the reverse direction, as in the Benelux countries and West Germany.

This provided a breather to the concerned administrations. The persistent weakness of the dollar however indicated that nobody was impressed with whatever the Johnson administration might do at this stage—not even the hurried release of the entire balance of its Fort Knox holdings, now depleted to just over \$11,000 million (as against over \$24,000 million at the end of World War II). Or else there need have been no second meeting of the central bankers (members of the gold pool, so called) within the last 10 days; one was held

in Zurich on March 10 and the other in Washington DC on March 16. No outsider will know the trend of discussions fully but from knowledgeable leaks, the bankers' concern could not have been limited merely to the impossible gap between the available US gold (\$11,000 million) and the awesome total of floating paper dollars in foreign countries (\$33,000 million) which the United States was committed to retrieve by payment in gold. The bankers would also want to be assured that the United States was serious in ending its deficits in foreign balances (so far averaging near \$3,000 million annually); what budgetary steps its Congress would approve to cover at least in part its internal deficit this year (well over \$25,000 million) and whether these deficits, external and internal, could at all be straightened out if the Johnson administration was determined to carry on its military operations in south-east Asia.

South African Threat

Nor were these the only issues that engaged the bankers. They had before them the threat of the South African government to stop its gold deliveries to the gold pool in London. The threat was purely political, a reaction against British cabinet tightening the UN sponsored trade boycott of South Africa (anti-apartheid) and of the (illegal) Smith regime of Rhodesia. South Africa, the biggest gold producing country in the western world (43 per cent of the total annually), was reportedly diverting its production to Paris. Paris had already left the gold pool last June and was now in the vanguard of the movement to unpeg the present gold price (since 1934) of \$35 an ounce and to raise it to \$70 an ounce or even more. Significantly, in the Paris (free) bullion market the gold price shot up last week to near \$45 an ounce. South Africa had another ace in its hand; it has had the unswerving loyalty of the world-famed Openheimer family, the biggest stockholder in the gold mines, the renowned brokers in world's diamond business, the official treasurers to a number of African countries and, to top it all, the official brokers for the gold and diamond transactions of the Soviet Union since 1966. Both London and Washington knew the implications of this family's connections and as it is said to be also related to the Rothschilds of Paris (close friends of General de Gaulle), its moves and the decisions of South Africa could not be lightly treated. Could this also throw some light on the tough and even

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defiant attitude of the French government towards both London and Washington in the present monetary crisis?

It is necessary to point out at this place that the French government and the French central and other banks still hold well over \$3,500 million paper dollars which they could present to the United States for encashment in gold, if their intention was to cripple the United States or destroy the dollar as a reserve currency. Such a foolhardy step however would be disastrous for the entire world community and recoil on France and its economy itself. There is therefore no likelihood of such a drastic challenge being thrown out now or in the foreseeable future. What France and its friends appear to be determined to ensure is, first, that the United States must so sort out its own international commitments that its financial and monetary transactions do not involve the economies of other countries any longer. The Europeans, particularly the ECM community, would see to it that the pound ceased to be a reserve currency but they would go along with the dollar in that role for the time being. Meanwhile if the main burden of financing the expanding international trade were to be entrusted to the International Monetary Fund, the management of the latter must ensure that the expansion of its resources whether by the CRU or the SDR process did not undermine the normal banking and exchange systems that have stood the test of time.

It is unfortunate that among the central banks invited to the conference in Washington last week-end, the Washington administration omitted to extend an invitation to France. The reason, publicly stated in London was that France was no longer a member of the gold pool. No one would be impressed by this explanation because the gold pool or whatever was

left of it, had in fact collapsed and ceased to function earlier in mid-week and had closed its doors. Besides, the conference in Washington, though dominated by bankers, was, from all accounts, expected to take not only financial and monetary decisions but administrative and quasi-political decisions for the entire world trading community, presumably not excluding even the trading problems of the USSR and the east European socialist bloc. The exclusion of France in such circumstances was impolitic if not petty. Fortunately, France on its side evinced a more statesmanlike attitude. It announced on March 15 its desire to go along with the international community and said that it would "take part in joint action to solve the crisis in the international monetary system."

Gloomy Atmosphere

The Washington conference met in an extraordinarily gloomy atmosphere. All banks the world over were closed. Bank rates were being raised and there were rumours of devaluation of the Japanese and Canadian currencies and of yet another of the pound. Meanwhile, as the bankers confabulated behind the closed doors of the Federal Reserve building in Washington, the paper dollar as indeed all other currencies were being offered at big discounts for gold all over the world, including Singapore, Hong Kong and Macao. The bankers' role had already been hamstrung by the Washington administration: "to support the present pattern of exchange rates based on the fixed price of \$35 per ounce of gold". They let this stand as they were bound to as the "official" rate for transactions by and between the gold pool central banks; the rest were freed and according to the earliest reports these significantly included the primary producers. Clearly the fortunes of the dollar have not been saved from fluctuating.

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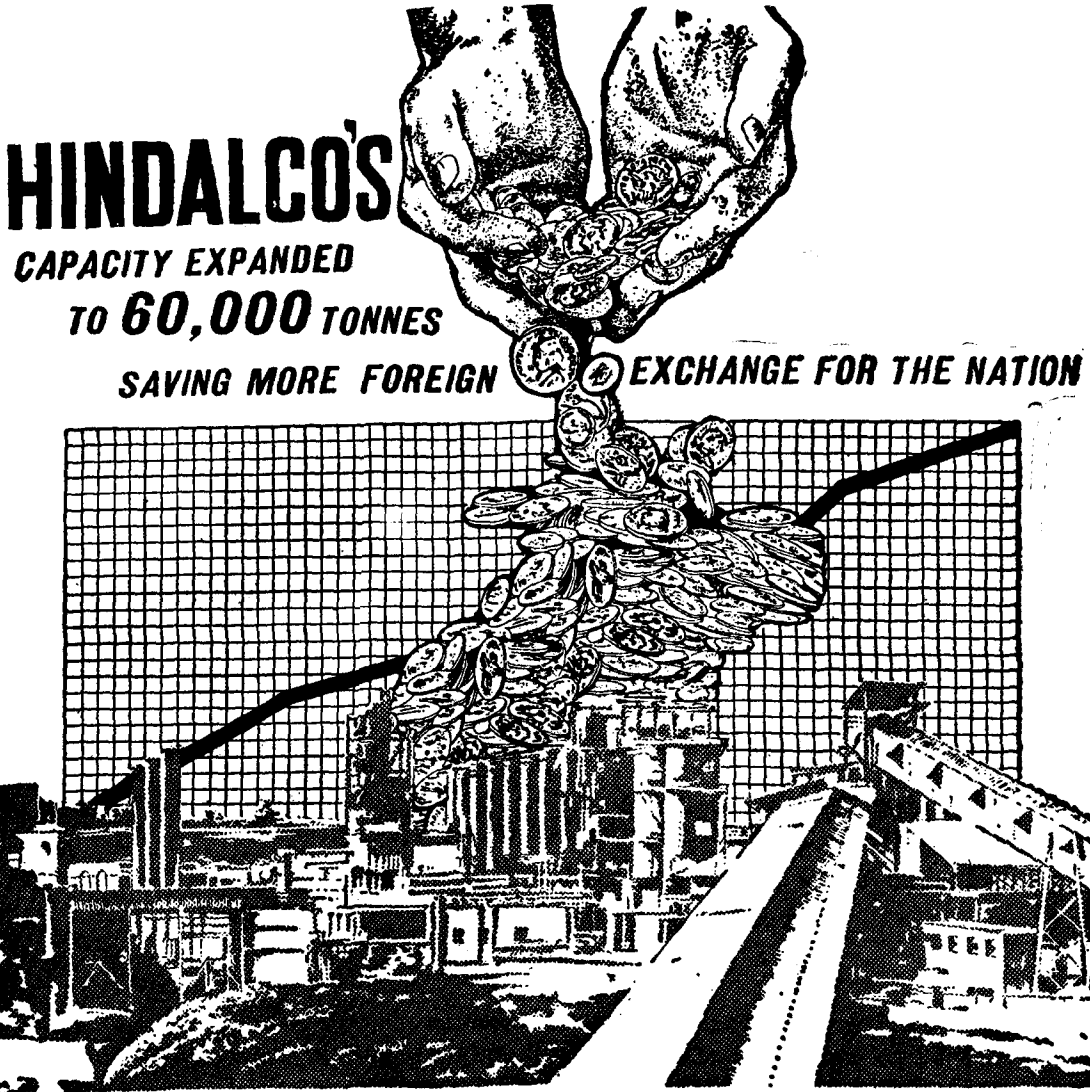
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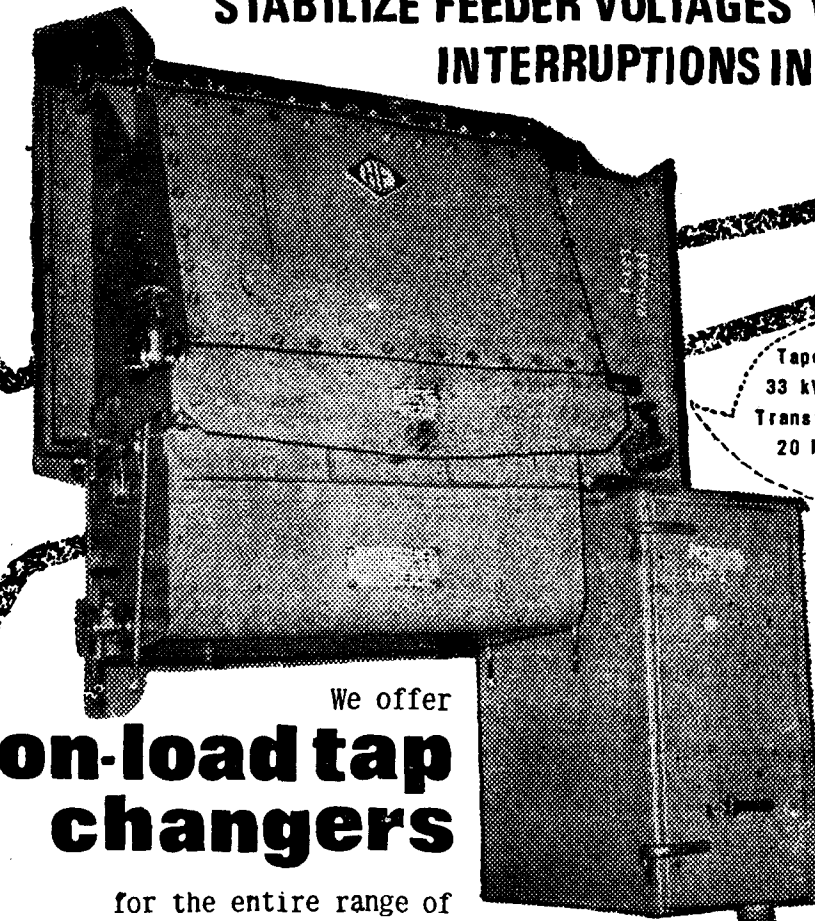


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FROM THE CAPITAL'S CUPBOARD

UNCTAD-II: Hard Bargaining Continues

HAVE THE clouds which had gathered over UNCTAD-II in recent weeks begun to dissolve? Perhaps yes. Following the deep concern expressed by Dr Raul Prebisch on March 12 when he had told a specially convened plenary session of the conference that despite five weeks of deliberations no positive results could be detected, except here and there, and that the conference was on the "verge of failure", concerted efforts have been initiated to evolve a consensus on all the major issues on which no agreement has been reached as yet between the developed and the developing countries. The developing nations have set up a six-member committee to negotiate with the developed countries on all the outstanding issues.

Till the end of the penultimate week of the conference, i.e. up to March 17, not much headway had been made on four crucial issues. These were: (i) elimination of all restrictions on imports by the developed countries of the primary commodities of the developing nations; (ii) grant of general preferences by the developed nations for the manufactured and semi-manufactured products of the developing countries, including the processed and semi-processed agricultural and primary goods; (iii) development aid; and (iv) supplementary financing.

In regard to elimination of all restrictions on the imports by developed countries of primary commodities of the developing nations, no positive response had been there from the advanced countries. The need for doing something, of course, was recognised. But the specific pleas of the developing nations that the developed countries should give an adequate share to these products of the developing nations in their increment of consumption and that negotiations should be conducted towards that end, within the framework of UNCTAD on a commodity-by-commodity basis, had not been accepted.

In respect of the grant of non-discriminatory and non-reciprocal preferences by the developed countries on the manufactured or semi-manufactured products of the developing nations, the main difference of opinion had been whether processed and semi-processed agricultural and primary goods should also be accorded a preferential treatment.

In regard to development aid, the developing countries had been insisting that the developed nations should agree to provide by 1970 a net outflow of one per cent of their gross national product at market prices as development aid. They further desired that at least 80 per cent of this assistance should be by way of transfer of resources on official account. Liberalisation of the terms of aid was requested. Owing to their balance of payments difficulties, most of the developed nations were said to be not in a position either to agree to raising the quantum of development assistance by 1970 to one per cent of GNP or to 80 per cent of this aid being provided through official channels. The definition of the GNP proposed by the developing countries for capital transfers had also been objected to by some developed nations. On the question of liberalising terms of aid, however, the difference of opinion was not so sharp.

As regards supplementary financing, although, according to Mr Jacob Everts, the chairman of the committee dealing with this issue, the prospects of an agreement being reached were "not unpromising", Dr Prebisch felt that there was a possible retreat from the position reached with the presentation to the conference of a draft resolution by the UK and Sweden.

On such issues as development of ports, shipping, insurance, tourism, east-west trade and the trade of the developing countries with the socialist bloc, quite an encouraging progress had been made. But these were the issues in regard to which only general principles are to be agreed to at UNCTAD-II.

and direction is to be given for detailed studies that should be undertaken.

Whether the outstanding issues will be amicably resolved or not, only the deliberations of this week will show. The conference ends on March 25.

LABOUR IN THE STEELWORKS

After protracted discussions, a formula acceptable to the management of Hindustan Steel, the labour unions of the three public sector steelworks, and the state governments concerned, is understood to have been hammered out on the question of recognition of trade unions at the plant levels. According to the formula, only that trade union in a steel plant will be recognised which on physical verification by the state government concerned commands a majority. The recognition once granted will remain in force for a period of two years. During this period no counter-claims of rival unions will be entertained. Benefits accruing from any negotiated settlements between the recognised union and the management of a plant will accrue to all workers irrespective of whether they are members of the recognised union or not. The recognition will be allowed to be challenged by a rival union at the end of two years. Following this challenge, a fresh physical verification will be undertaken by the state government. Inter-union rivalry between the Indian National Trade Union Congress, the All-India Trade Union Congress and the Hind Mazdoor Sabha, it may be pointed out, has been hampering considerably the working of the public sector steel plants. As a sequel to the understanding now reached, the steel plants can look forward to a new era of industrial peace.

HELPING TEXTILE EXPORTS

Several steps have been taken in the recent past to improve exports of cotton textiles. Taking the opportunity offered by the Kennedy Round tariff negotiations, reductions ranging between seven and 30 per cent of the existing import duties have been secured from the United States, the members of the European Economic Community, Japan, Austria and the Nordic countries. Bilateral arrangements have been entered into with certain countries under which higher export quotas for our cotton goods have been obtained. The United Kingdom, for instance, will be importing between December, 1967, and November, 1968, 11,731 million lbs of cotton yarn and 198,919 million sq yards of cloth. The West German quota for the calendar year 1968 has been fixed at 2,725 tonnes of cloth. The cloth quotas for the 12-month period to September, 1968, in the case of some other countries is as follows: the United States 88.2 million sq yards; Austria 275 tonnes; France 3,125 tonnes; Italy 650 tonnes; the Benelux countries 1,300 tonnes.

With effect from March 1, the export promotion scheme for cotton textiles under which cash assistance is provided on a selective basis of a varying scale, depending upon the varieties of the cloth exported and the distinction involved, has been amended to enable manufacturers/exporters of cotton ready-made garments whose factories are located beyond 322 km from Bombay and Madras to get one per cent additional incentive on the f.o.b. price of such exports. The manufacturers/exporters of such garments whose factories are located in West Bengal will also be eligible for this incentive. As a part of the expansion programme of the textile industry up to 1970-71, three export-oriented spinning mills of 50,000 spindles each in the central sector, seven spinning mills of 25,000 spindles each in the state public sector and 13 spinning mills of 25,000 spindles each in the co-operative sector are being established.

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FROM THE PRESS GALLERY

Desai Holds Out No Promise of Relief

Our Parliamentary Correspondent

NEW DELHI, Monday

SINCE WE reported, last, the Lok Sabha has completed its general discussion on the central budget. The budget is being currently debated in the Upper House. Both the Houses have had their say on the railway finances.

The attack on the central budget has followed the anticipated pattern. The main targets of criticism have been (i) the resort to deficit financing, (ii) the provision for the Bokaro steel plant, (iii) the increases proposed in postal rates, and (iv) the lack of relief for the tax-payers in the lower income brackets.

The resort to deficit financing, which was interpreted by many as going back by the Deputy Prime Minister and Minister for Finance, Mr Morarji Desai, on his last year's promise, came in for criticism not only from the opposition but also from several members of the Congress party. The objection to deficit financing on principle was voiced by only a few. Most of the critics expressed themselves against its quantum. It was feared that deficit financing of the order of Rs 290 crores next year would accentuate inflationary pressures, especially when during the current year also deficit financing had to be resorted to as much as Rs 300 crores. The plea of the Finance Minister that, thanks to a good crop this year, the Rs 290 crores deficit financing proposed by him for next year would be absorbed without affecting the price level apparently failed to carry conviction with most of the critics. Many members doubted that deficit financing would be able to halt the downtrend in foodgrain prices for the benefit of the agriculturists.

Bokaro Plant Assailed

It was primarily as a corollary to the attack on deficit financing that the budgetary provision of about Rs 110 crores for the Bokaro steel plant was assailed. Many members expressed doubts on whether the heavy investment in Bokaro was at all justified when even the existing three public sector steelworks were working to only about 50 per cent of their rated capacity. Apart from the plea for curtailing the expenditure on Bokaro, it was suggested that the deficit in the budget should be reduced by such measures as effecting of substantial economies in the non-developmental and administrative expenditure and collecting of the growing tax arrears vigorously.

So far as the increases proposed in the posts and telegraphs tariffs are concerned, the main targets of attack were the raising of the price of post cards and the enhancement of the commission on money order remittances. It was argued that the poorer sections of the society were being penalised for the inefficiency of the posts and telegraphs department. It was generally felt that there was a good scope for reduction in the expenditure of this department.

The champions of the lower income groups lamented that the Finance Minister had not done well by ignoring the suggestion of Mr S. Bhoothalingam that the exemption limit of income-tax should be raised from Rs 4,000 to Rs 7,500. Mr Bhoothalingam had recommended the raising of the exemption limit in his report on the rationalisation and simplification of the tax structure. The services of this former secretary of the union Ministry of Finance had been commissioned by the government itself for reporting on the issue.

The proposed increase in the burden of indirect taxes

also came in for criticism at the hands of a few members. But the criticism was confined mainly to the imposition of excise duty on confectionery and chocolates, which affected children, and on unmanufactured tobacco, which hit the poor.

The efforts of the Finance Minister at reviving the capital market and countering the recessionary tendencies in the economy were generally appreciated. Some opposition members of the leftist bearings, however, objected to these efforts and saw in them a move on the part of the government to deviate from the path of socialism. The abolition of the annuity deposit scheme was generally hailed.

In view of the good agricultural crop this year, several members urged that food zones should be abolished. Some others felt that enlargement of food zones would suffice. The oft-repeated pleas for the nationalisation of banking, general insurance, foreign trade, etc., were voiced by the leftist members. The dependence of the central budget on PL 480 funds was regretted by not a few. Several members urged that a high level commission should be appointed to go into the reasons for the poor performance of the public sector undertakings.

Shrinkage of Tax Base

Intervening in the debate, the Minister of State for Finance, Mr K. C. Pant, revealed that the government could not accept Mr Bhoothalingam's recommendation about the raising of the exemption limit of the tax on personal incomes because it would not only reduce the revenue from income-tax by Rs 18 crores, but would also lead to a sizable shrinkage in the tax base. If the government accepted the suggestion, nearly 1.1 million tax-payers with incomes ranging from nine times to 16 times the national per capita income, would be exempted from paying income-tax. This, he opined, was contrary to the accepted concept that the tax base should be widened as much as possible. Mr Pant also defended the proposed expenditure on the Bokaro project and the resort to deficit financing. He pleaded with the critics of the Bokaro plant that they should appreciate the necessity of increasing the production of those types of steel which were mostly imported at present. It was quite possible for a country to be surplus in some categories of steel and to be deficit in some others, Mr Pant pointed out. Defending the resort to deficit financing, Mr Pant chided the opposition members for not suggesting any alternatives that could stand the test of scrutiny. He disagreed with the critics that there had been an unjustifiable and disproportionate increase in non-developmental expenditure.

A more stout defence of deficit financing, however, was put forth by Dr V. K. R. V. Rao, Minister for Transport and Shipping, who also intervened in the debate on behalf of the government. Although Dr Rao declared himself as not being particularly enamoured of deficit financing—it, he said, was not good in itself—he opined that there were circumstances in which deficit financing was not only unavoidable but desirable. During the coming year, deficit financing, Dr Rao thought, would do only good. Speaking in his personal capacity, he suggested that a ceiling on incomes should be fixed.

The above two interventions made the task of Mr Desai much easier. The Finance Minister did not think that his taxation proposals would hit the poor. Defending the increase in posts and telegraphs tariffs, he reiterated that there was no escape from this as the posts and telegraphs department

was losing heavily. The department had to pay its way, he asserted. Justifying the proposed increase in the price of post cards, the Finance Minister pointed out that the lower prices benefitted mostly the commercial houses; the poor were not hit as nearly 75 per cent of them were illiterate and could not make use of post cards. This defence of Mr Desai, however, could not convince the critics who legitimately pointed out that whether or not a person could read or write, he could use postal facilities.

With a view to countering the criticism that he had gone back on his promise of not resorting to deficit financing, Mr Desai read out excerpts from his last year's budget speech and asserted that he had never given a "blanket promise" that deficit financing would not be resorted to under any circumstances. He, however, agreed that it should be avoided as far as possible. The proposed deficit financing next year, Mr Desai reiterated, would not do any harm.

Dwelling upon the plea for effecting economies in non-developmental expenditure, Mr Desai pointed out that most of the non-plan and non-developmental expenditure at present had started as plan expenditure. The administrative expenses, he observed, could not be cut significantly without increasing unemployment. The Administrative Reforms Commission, he added, was examining the matter but its recommendations would have to be implemented in a phased manner.

Food Zones Policy

On food, Mr Desai observed that the policy of food zones was being constantly reviewed. He rejected the suggestion that PL 480 imports were being made to augment resources. Despite the good crop this year—Mr Desai thought it to be only a normal crop in a normal year—a buffer stock of three million tonnes of foodgrains, he said, had to be built and this could be done only through imports.

Mr Desai reiterated that his indirect taxation proposals would not hit the poor. The incidence of increase in the excise duty on unmanufactured tobacco, he pointed out, was insignificant—for the poor, it only meant one paisa more on 100 bids. The confectionery and chocolates, Mr Desai observed, were mainly consumed by the children of the rich and not those of the poor. So there was no harm in imposing excise duty on them.

While the Finance Minister, thus, did not hold out any hope of concessions in his taxation measures, the Railway Minister, Mr C. M. Poonacha, promised a reconsideration of his proposal to increase the charges for sleeper accommodation on passenger trains. Mr Poonacha also revealed that he was considering the possibility of restoring railway concessions to theatre groups and artistes moving in groups and nurses, among others. He did not think that any downward revision of the other increases proposed by him in the fares was warranted. He pointed out that the rail travel was still the cheapest in the country, costing on an average 2.5 paise per km as against 3.2 to 3.7 paise per km by road transport.

On the development side, Mr Poonacha had good news for Calcutta and Bombay. The government, he said, was considering to give these two states, as a central project, an underground railway system to enable them to cope with the phenomenally growing urban traffic. The Planning Commission had been asked to go into the question. Once its views were known, the Railway Board would make expert studies.

Mr Poonacha ridiculed the suggestion that the railways were yielding ground to the roadways. He maintained that the question was not so much of competition as of co-ordinated growth of the two systems; in the ultimate analysis, what mattered was an efficient and reliable service to the community. The question of closing some of the branch railway

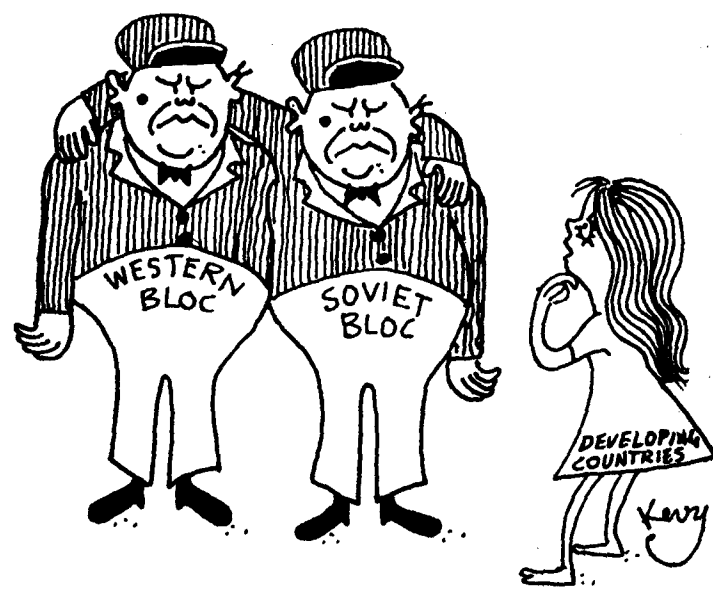
lines, Mr Poonacha said, had arisen directly from this consideration. Mr Poonacha also declared it as government's policy to progressively take over all privately-owned railways in the country. As and when contracts fell due for renewal, the government would consider take-over.

Describing a buoyant economy and peaceful conditions as prerequisites for any fruitful operation of the railways, Mr Poonacha attributed the fall in goods traffic during the current financial year to a general sluggishness of the economy. He did not agree with the prophets of doom who had during the debate forecast a gloomy future for the railways. The railways, he said, were in sound financial health. This was so in spite of their having reached some sort of a "plateau" so far as goods traffic was concerned.

In a statement on the recent gold rush, Mr Morarji Desai observed that he did not expect that the establishment of a dual market for gold would disturb our trading and payment arrangements. There, however, may be some effect on the smuggling of gold into India. To the extent the prices of gold go up in private world markets, the profitability of smuggling gold, Mr Desai felt, would be reduced. This would reduce the incentive for smuggling gold into India.

Mr Desai expressed satisfaction at the fact that the crisis in international financial arrangements had been resolved since "maintenance of orderly international trading and financial arrangements is essential for the smooth flow of trade and payments of India, the developing countries and the world as a whole". The Finance Minister hoped that these arrangements would be strengthened by an early adoption of the scheme for creation of international liquidity under the aegis of International Monetary Fund. It was India's hope, he said, that the Fund's scheme for special drawing rights would be adopted and implemented without delay.

Mr Desai informed the House of the Washington meeting's decision that no gold would be supplied to the gold markets in which private parties can trade in the metal and said the effect of this would be that gold would be available to private parties in London and elsewhere at prices determined by supply and demand in these markets. This would not alter the par value of the US dollar or any other currency in any way. The US authorities, he added, had reiterated that they would continue to deal in gold with monetary authorities at the price of \$35 per ounce.



Tweedledum and Tweedledee

WINDOW ON THE WORLD

What Devaluation May Mean to UK and the World

JOSSLEYN HENNESSY

WHAT CAUSED DEVALUATION

LONDON:

IS BRITAIN'S devaluation the end of a prolonged series of Stop-Go crises? Has it laid the foundations for a British "miracle"? What repercussions could it have on the future stability of the existing international monetary system?

The answers depend (1) on the economic policies to be announced in Roy Jenkins' budget of March 19 and (2) on the political repercussions of those policies on (a) the cohesion of the Labour party, (b) the attitudes of the trade unions, (c) whether the British electors accept or reject them, and (d) not least their assessment by Britain's foreign creditors and international trading partners.

Since this must be written before March 19, I propose to outline the basic background which, I hope, will enable you to form your own assessment of Mr Jenkins' economic decisions and their possible political repercussions, national and international.

There is a widespread belief that the UK's recurrent postwar balance of payments crises arise solely from inefficiency and lack of competitiveness in Britain's export industries, but if you subtract government overseas expenditure, the balance of trade in goods and services has since 1952 been in deficit only in 1955, 1960 and 1964, and when you include net interest and dividends earned by private enterprises, it has never once been in deficit. [See the chart published (under this column) on page 393 of 'Eastern Economist' of September 1, 1967].

Sticking to Beaten Path

I don't suggest that British exporters could not be more streamlined and competitive. Of course they could. But penal taxation to finance ever rising state expenditure at home and abroad is an incentive to stick to beaten paths, not to risk innovation and the unknown which may cause disaster if unsuccessful and will bring no extra reward if successful. That industry has done as well as it has under such conditions suggests what "miracles" it could achieve if given a chance.

The doom-laden atmosphere which followed the Labour government's formation in October, 1964, was of its own creation. True the previous Tory Chancellor, Mr Reginald Maudling, had warned that a deficit of some £400 million in the balance of payments lay ahead, but he was taking the risk with eyes open. His plan was to borrow from the Group of Ten to tide over a period of mounting imports until new levels of domestic production had been achieved, which would enable productivity and exports to rise and the borrowings then to be repaid from an expanding economy. We shall not know until the archives are opened and the spate of self-justificatory political autobiographies begins some years hence why Mr Wilson did not seek to continue the Maudling policy which could have paid off. True, again, foreign creditors might have been less inclined to lend to a Labour government, but had Labour pursued realistic policies, foreigners would have supported it for the sake of international credit stability. Mr Wilson having, however, denounced Mr Maudling's policy as the road to ruin, and having cracked up the deficit as £800 millions (without explaining that half was on capital investment account), could not revive it without reviving the alarm among foreign creditors which his previous cries of woe had created. As one authority commented, "After

all, the international bankers have Wilson's own word for it that this way lies national bankruptcy!"

It might have made sense if the government had devalued at once. Instead, they wrung their hands in public, "revealing" to a dismayed world what "mess" the Tories had left them. Yet at the very same time the government raised expenditure on the social services! When all this caused a flight from sterling, Mr Callaghan went back to a deflationary "Stop" on a scale that not one of his Tory predecessors had attempted.

In July, 1966, Mr Wilson announced tax increases, a wage freeze and cuts in government investment, killing any lingering ideas that Labour knew the secret of stable economic growth and bewildering those who had voted on the strength of the slogan "Let's go with Labour!"

By the beginning of 1967 the results of the July 1966 measures became visible: Unemployment was rising; the freeze of wages and prices had been effective. Expansion in overseas economies created hopes of a substantial surplus in the 1967 balance of payments. Mr Callaghan hastened to initiate reflation. Hire purchase was relaxed, family allowances and social security payments increased. These and other reflationary measures led to a consumption-led recovery which was expected to carry over into 1968. The phase of "severe restraint" in incomes policy was ended. Earnings rose. But Mr Callaghan's margin was too narrow to allow for anything unforeseen and developments overseas ended hopes of a surplus. The West German recession persisted. Economic growth in the USA slackened. The closure of the Suez Canal and war in the Middle East in June, 1967, caused freight charges to rise. Oil import costs soared. The Arabs boycotted British exports. From September, dock strikes in London and Liverpool postponed substantial shipments of exports. Protests from EFTA countries at the UK's unilateral import surcharge had created indecision in the cabinet and they naively gave notice that they would remove it. So importers naturally postponed orders and heavily "bunched" inflows began as soon as the surcharge ended. All these developments combined to destroy the Chancellor's optimistic policies. The buoyancy of imports, the internal consumer-led recovery, and the adverse overseas developments put sterling under rising pressure which ended in devaluation on November 18, accompanied by new and hastily thought-up internal deflationary measures and cuts in overseas government expenditure—announced in two half-hearted steps and accompanied by Mr Wilson's electioneering statement that devaluation would not decrease the £'s internal purchasing power when one important contribution of devaluation would be to allow home prices to rise to reduce domestic consumption of exportable goods.

What Devaluation Offers UK

Devaluation offers the UK an export-led economic expansion which would not have to be cut short when imports of raw materials and industrial stocks rise with output and incomes, because export-led expansion stimulates a sustained increase in investment which raises productivity and maintains competitiveness.

But if devaluation offers the UK tremendous opportunity, it remains true that, unlike the planned devaluation of the French franc in 1958, the devaluation of the £, forced amidst a flurry of ambiguous official statements, represents the collapse of the policies that the Labour government had upheld throughout its first three years. This makes it more difficult

for the government to exploit the opportunity. Its authority is undermined, its image tarnished. The circumstances of devaluation have had a powerful emotive effect on public opinion. Bitter differences within the Labour cabinet and the party—copiously leaked to the press—have created uncertainty in industry about future policies and the government's determination and competence to pursue them when formulated. Relations with the Confederation of British Industries have deteriorated. The nervous behaviour of the £ on foreign markets once the Bank of England ceased to hold it at the new ceiling of \$2.42 showed that doubts of the Labour leaders' practical abilities were widespread not merely in the UK but throughout the international trading world.

Make no mistake: devaluation could fundamentally improve the UK's economy. Whether it does depends on the government's political ability to restore its credibility and to replace political followership by economic leadership. The act of devaluation strengthened the government's immediate position in Parliament. The Labour party's left wing had been pressing hard for faster reflation, but devaluation lined up the moderates behind the government. Within a month this solidarity had cracked over the Chancellor's acceptance of IMF insistence on supplementary measures in return for a standby credit of \$1,400 millions.

II THE GOVERNMENT'S BIGGEST ASSET

The government's biggest asset is Roy Jenkins, the new Chancellor. He is a youthful 48, energetic, unflappable. The son of a miner, he won a scholarship to Balliol and took a "First" in economics. He urged a planned devaluation long before the unplanned crisis occurred. Treasury officials, accustomed to Chancellors who worked far into the night, were staggered to be told that Roy Jenkins had no intention of working in his office after 7 p.m. and did not want to be disturbed over his weekends which he proposed to devote to reading and reflection. A moderate progressive, he is well-suited to regain for the government the co-operation of industry. He is the one man in the government who could pull off a British "miracle". If he does, Labour will streamline its ideology, shed its left doctrinaires and be in office for another ten years, with Roy Jenkins as Prime Minister and a force in world politics.

But he faces great odds—economic and political.

The Treasury, under Mr Callaghan's Chancellorship, had obviously lost control over public expenditure. Before Mr Jenkins' cuts, the Treasury estimated that total real public spending would rise by no less than £1,000 millions in 1968-69. Even after the axe, the estimate is a rise of £700 millions (all at constant 1967 prices). This real increase of £700 millions coincides with (a) the government's need to divert £1,000 millions of real resources into new exports, new import substitutes, and some new investment to increase production of both, in order to improve the balance of payments and gradually to repay some £3,000 millions of foreign support (used or promised) and with (b) an expected 4 per cent real growth in calendar 1968, which implies the creation of £1,350 millions of new resources. But £1,350 millions of new resources less £700 millions additional government expenditure and £1,000 millions diverted to exports leaves an inflationary gap of £350 millions. In addition, besides some investment in the export industries (included in the £1,000 millions), there ought to be some rise in private investment in 1968-69, and on present trends private consumption could rise by up to £400 millions. In other words there could be an inflationary gap of nearly £800 millions. To find the whole £800 millions out of additional taxation is economically and politically impossible. The pundits agree that consumer expenditure should not be allowed to rise at all. But if higher taxation could mop up some increase in earnings, it could also raise labour costs in manu-

facturing, raise manufacturing prices and so erode the competitive advantage of devaluation.

Many commentators have concluded that Mr Jenkins, while raising some taxes (probably indirect, because most authorities believe that direct have reached saturation point), will rely heavily on an incomes policy with a statutory wage freeze. This is a gamble because no country has yet succeeded in enforcing a total wage freeze. The best that can be expected from it is a much slower wage rise (inevitably followed by a wage explosion when ended). Even so, such an incomes policy will be insufficient to restrain consumers' expenditure, because even if average earnings rise more slowly, so will prices after a short lag provoking demands for higher pay. There is, incidentally, no evidence that profits gain when incomes from employment are held down: any reduction in the rate of rise in earnings tends to be passed on in a reduction in the rate of rise in prices. What, then, to do?

Somehow, consumer expenditure must be held below what it otherwise would be in 1968-69 by £400 to 650 millions at current prices. The 'Economist' saw only one way out: a statutory wage and salary freeze plus allowing prices to rise in a free market. This would be wildly unpopular with Labour MPs but, added the 'Economist', "look what they have meekly sat down under this week and look—which is more important—what they will have to sit down under next if the government's post-devaluation policies fail".

The Labour party is now so demoralised that the possibility of a split and a return of the Tories cannot be excluded. This was the recently prominently displayed view of Nora Beloff, the authoritative political correspondent of the 'Observer', a radical paper sympathetic to the Labour party.

The Political Odds

Labour's right and centre believe that the government should now go all-out to make the mixed economy work. Unless they achieve this, they see no future for the party. Against them, the left passionately support the views of Paul Johnson, the articulately orthodox socialist editor of the 'New Statesman', that "consensus politics" have not only failed but should never have been tried. Here are some typical Johnson nuggets: "In those heady days of spring 1966 Mr Wilson honestly thought that he had achieved the consensus; that he had deprived the Tories of the precious middle ground which ensures a party semi-permanent rule...Even now that things have gone hopelessly wrong, he is still pursuing the mirage of the consensus, pretending that Labour is not a class party, that it can be all things to all men and can operate without antagonising powerful sections of the community. But it was always fantasy to imagine that Labour could carry through meaningful reform without a desperate struggle, marked by deep and vicious antagonisms. The rich will fight like animals, break the rules, lie and slander and betray their country to preserve their money and privileges—after all that is usually how they got them in the first place. The rich man is not in politics for fun, or exercise, or idealism, or any such nonsense...It may be that nothing can now save the government and that the next election is lost. I don't believe so; but...Mr Wilson and his colleagues will find no refuge in further retreat; they will be hunted down mercilessly and hurled from office long before their allotted spans. Their only course now is to stand and fight, to devote the rest of this parliament to a prolonged offensive against the forces of money and privilege. Let them start with the budget, with some major steps to redress the grotesquely unjust distribution of wealth in this country...The object of the government during the next few weeks should be to wipe the contempt off the Tories' faces and replace it with genuine fear".

Harold Wilson, according to the 'Observer', is confident that if a clash between the warring Labour factions can be avoided, he is destined to preside over a British "miracle", but

"He may not have grasped how unpopular he is; on the eve of the Gallup Poll, the worst ever recorded for a governing party (Tory lead 22.55 per cent), he was privately predicting that this time it might be his adversaries who would be discomfited".

The long term economic trends are favourable but the government must live through what should be the toughest budget ever, with higher prices, wage controls, collisions with the unions (on which the party depends for most of its funds), and adverse chain reactions of its unpopular policies on the series of by-elections in the offing. Mr Wilson may secretly share with his left wingers a more optimistic view of what the UK economy could afford but what he himself cannot afford is to fall out with his new Chancellor, whose views on the need for statutory wage restraint are supported by Anthony Crosland (President of the Board of Trade), Ray Gunter (Labour Minister), George Brown, James Callaghan (now Home Secretary) and Denis Healy (Defence). These men are acting together as a "watch committee" in the cabinet to make sure that Harold Wilson does not listen to Paul Johnson and the virulent Left. If Roy Jenkins threatened to go, the Cabinet would disintegrate and Mr Wilson therefore cannot yield to the TUC's new economic policies advocating state acquisition of privately owned assets abroad, wide extensions of public ownership and control, and expansion of government expenditure with import controls if that led to another balance of payments crisis.

Harold Wilson lets it be known that he sympathises with these ideas and that it is the Jenkins "Watch Committee" which makes them impractical "for the present". It is precisely this political ambiguity, characteristic of Mr Wilson's whole record as Premier, which the "Watch Committee" challenge, believing that the electors would respond to courageous leadership, admitting what went wrong and offering Churchillian

toil and sweat as the price of recovery. Roy Jenkins and his friends are ready for a collision with the left-wing union leaders, which they believe would win votes. Gallup Polls, highly critical of the unions, support them in this. Harold Wilson, however, continues to believe in soothing the left by insisting (at least verbally) on the government's "Socialism", increasing state intervention, etc.

III

INTERNATIONAL SIGNIFICANCE OF U.K. BUDGET

Roy Jenkins' budget could make an important contribution to the future of the existing monetary system of the international trading world. As long as the balance of payments deficits of the UK and the USA—the two reserve currency countries—persist, the risk grows that the free multilateral trade and stable exchange rates, on which world prosperity has been based since 1946, will increasingly yield to nationalist pressures to avoid importing inflation and to defend reserves, and that we shall slide imperceptibly from one control to another until we find ourselves amidst the high tariffs, blocked currencies, exchange controls, and barriers to the fructifying free flow of capital across frontiers that were characteristic of the inter-war depression.

While Europe was recovering from the devastations of war, it gratefully accepted dollar aid and recognised the services of the £ in facilitating world trade. Trouble began when (1) Europe recovered prosperity and freed itself from dependence on dollar aid, but (2) the UK and the USA began to run rising payments deficits. The Europeans complain that, since the dollar and the £ are reserve currencies, the UK and the USA can finance their deficits in their own currencies—by handing over interest bearing sterling or dollar bonds—and that there was no limit to this process until recently when sterling holders lost confidence to the point of forcing devalua-



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tion, and dollar holders have become increasingly restive. Europe now looks to Roy Jenkins to ensure that the sterling devaluation enables the UK to achieve sufficiently large and persisting surpluses to enable sterling held as reserves to become once again first class assets facilitating the orderly expansion of world credit and trade.

The USA had run a substantial surplus on goods and services until 1966. But this surplus, falling sharply in 1967, is expected to become a deficit this year. This is essentially due to the war in Vietnam and the Europeans don't see why they

should finance that. Space lacks to discuss what the USA should do about this. I only point out that the devaluation of the £ makes it possible for one of the two reserve currencies to set its house in order. To the extent that Roy Jenkins succeeds, he will make a substantial contribution to world monetary stability and thus to world trade and will give the USA a breathing space to sort its own affairs out. If he fails, or if the USA does not use its breathing space constructively, the pressure on the dollar will speedily multiply to breaking point and the existing world monetary system risks collapse into the "autarkic" disasters of the inter-war years.

Myrdal Looks at Asia

THE COUNTRIES of South Asia are unlikely to advance economically unless social reforms are made an integral part of their economic development plans.

This is one of the major conclusions reached by Gunnar Myrdal, the noted Swedish economist, in a monumental study of South Asia issued by the Twentieth Century Fund. India, Pakistan, Ceylon, Burma, Thailand, Malaysia, Indonesia and the Philippines are the countries given extensive analysis in the new work.

The study, entitled 'Asian Drama: An Inquiry Into the Poverty of Nations', is the result of a decade of research, and provides what amounts to a new approach to the problem of accelerating development in the area.

Professor Myrdal says that South Asia is mistaken in adopting the western approach, which emphasizes the importance of creating job opportunities. He points out that in South Asia many persons either do not want to work or, because of ignorance, ill health, or geographical or functional immobility, are unable to work. Thus, the problem is less one of creating new economic opportunities than one of increasing the number of persons who respond to the opportunities that already exist. This involves basic changes in the institutional structure of the region.

Barriers to Growth

Professor Myrdal calls on South Asia to change those economic, social and political practices and organizations which are barriers to growth. "The obstacles to rapid economic expansion are rooted in the inefficiency, rigidity, and inequality of the established institutions and attitudes," he explains. "The problem of development is one calling for . . . changes in that social and institutional structure, as it hinders economic development."

The new Twentieth Century Fund study emphasizes that South Asia will require outside help in the form of aid and technical assistance. The west must undertake a massive research effort to help solve the problems of the underdeveloped nations.

"Unless the research effort is very large and in the right direction," Professor Myrdal says, "the dynamics of technological progress will work to the ever greater disadvantage of the underdeveloped countries, . . . decreasing their development potential."

He also calls on western countries to open their markets to Asian goods. "If the rich countries want the countries of South Asia to succeed," he says, "they will have to go out of their way not only to remove artificial restrictions against South Asian manufactured goods but also to create markets in their own countries for such products and to guarantee long-run freedom from import restrictions."

But he holds that it is the Asians themselves who must take the lead in dealing with their most critical problems—the population explosion, the shortage of food, the low productivity of labour.

An essential step in development, according to the study, is control of population growth. Professor Myrdal says that unless governments in the region act immediately to curb the high birth rate, they face economic stagnation and decline.

"The population explosion," he writes, "is the most important social change in South Asia in the post-war era. . . . The possibility now exists that the spread of birth control will be the greatest change in the next few decades."

He does not expect this change to come about spontaneously. Instead, he urges that the nations of South Asia undertake a mass educational campaign to popularize birth control methods.

At present rates of growth, the population of South Asia may increase by 60 per cent between 1960 and 1980. Stressing the need for prompt action, Professor Myrdal warns that three

"Highlights" from this study, as listed by the Twentieth Century Fund, are published under "Records and Statistics" elsewhere in this issue.

decades may be required to reverse population trends. He points out that the youthfulness of today's population gives a tremendous momentum to population growth.

In examining the critical problem of food supply, the study urges that improvements in agricultural production be given high priority. In fact, Professor Myrdal's development strategy relies in large part on agricultural reforms to increase the incentive to produce.

He blames today's low productivity on absentee land ownership, share-cropping, and antiquated attitudes relating to manual labour. These conditions, by dampening incentives for capital investment and more intensive labour in agriculture and making it difficult to hire wage workers, have perpetuated inefficient use of the land.

The study recommends a three-point programme for agricultural reform. Its main features are a heavy tax on the income of absentee landowners; a law to forbid the purchase of land by individuals who are not prepared to engage in cultivation; and a modest redistributive scheme to give small plots to the landless.

Professor Myrdal is hopeful that this programme will encourage capitalist farming. He is convinced that functional use of the land, rather than size of holding, should be the determining factor in land reform. Efficient and enterprising farmers, he contends, should be encouraged and rewarded.

Above all, Professor Myrdal says, agricultural planners must give greater attention to social reforms which would make more people want to work, and to work harder, in order to raise productivity. "Without any (technical) innovations and even without any investment other than longer and more efficient work," he says, "agricultural yields could be raised very substantially."

The moving finger writes

IT USED to be a practice with Jawaharlal Nehru, whenever his administration felt helpless—and this happened only too often—in the face of persecution by governments abroad of settlers of Indian origin, to declaim against emigrant Indians who would court such difficulties by insisting on living like foreigners in countries of their adoption. It was therefore only to be expected that his daughter would, when an occasion arose, take a convenient leaf out of his book. Mrs Indira Gandhi's first reaction, when the future of "Kenya-Indians" threatened to become a problem, was to castigate these unfortunates for failing to develop social relations with the people of the land, as if this was the time to find fault with them on this score. Having charged the Kenya Indians with having been at least partly responsible for their present plight, the Prime Minister proceeded to blame the British government for the rest. Now, far be it for me to suggest that the conduct of the Wilson government, with the connivance of an influential section of the Tory opposition, had been anything but ignominious, but is it not equally the case that nothing Mrs Indira Gandhi or anyone else in our country has said or could say about Britain's racist restrictions on immigrants of Asian origin from Kenya, holding British passports, could be half as fiercely condemnatory as the opprobrium heaped on Mr Wilson and certain other British politicians by some of their own fellow citizens? If, in these circumstances, the Government of India really wants to raise the issue of the practice of racialism by the central community of the Commonwealth, particularly against people from other communities in the Commonwealth, the only responsible and dignified way which is open to it is to activate such consultative machinery as the Commonwealth possesses and mobilise opinion among other member-governments of the Commonwealth against the offending policies of the British government. Perhaps New Delhi has not been able to think in terms of such a step for the excellent reason that the Government of India itself has no notion of the extent of its influence in Commonwealth affairs.

Then there is also a fact that our government's title to act as a mentor of Britain is far from clear. The Prime Minister has yet to say a word in criticism of the policies of the Government of Kenya which contain as large an element of racial discrimination as there may be in anything that Britain has done. Could it be that Mrs Gandhi does not realise that the root cause of the Kenyan trouble is the deliberate intention of the Kenyan government to strike at the capital and livelihood of the settler communities concerned so that, facing a steady curtailment in business or work opportunities in Kenya, they may feel compelled to emigrate? How then is it that the Prime Minister or her deputy in the Ministry of External Affairs, Mr B. R. Bhagat, has not said a word even in mild protest of the Kenya government's policies? Is it because Mr Jomo Kenyatta used to be one of the spiritual brothers of Jawaharlal Nehru and is thus a political uncle of the present Prime Minister of India?

Mr Bhagat has stated that the Government of India would allow the entry into our country, on compassionate or humanitarian grounds, of those Kenya Indians who, holding British passports, are prevented from emigrating to Britain by the British government's recent immigration law. I would be the last person to criticize Mrs Gandhi for wanting to practise charity abroad, but I would like to point out for the record that the Government of India certainly has no legal or even moral responsibility, however construed, for people of Indian origin in Kenya who had freely chosen British nationality precisely as an insurance against the kind of contin-

gency which has now arisen. It is clear that our softness would only help to make things easier for the British government whose conduct we have vociferously condemned or the Kenyan government whose policies we ought to have spoken against even more vehemently but haven't. Is it too much to expect of Mrs Gandhi and her cabinet that our country ought not to be made to bear the burden of undefined commitments with regard to the resettlement of persons of Indian origin holding British passports whom the Kenyan government may want to squeeze out of Kenya and the British government refuse to admit into Britain?

I am glad that Mr T. T. Krishnamachari has at last chosen to break his self-imposed silence on public issues. It is true that, after ceasing to be a Member of Parliament, he had allowed journalists to quote him on a few occasions, but their reports in the press had been brief and not perhaps always accurate. I have therefore read with more than ordinary interest his brilliant dissertation on Indo-Soviet relations, in the form of a full-length article in the New Delhi edition of 'The Indian Express' of March 12. It is of course fitting that his first major contribution to the press on public affairs should have concerned itself with this very important subject. Mr Krishnamachari has done a service to the people and government of our country by placing in perspective the facts and realities of Indo-Soviet association. Politically selfish or short-sighted people—some of whom, I regret to say, are to be found among the elite of the Swatantra Party—have been working overtime to represent to the people of our country that any sort of friendly relations our government may develop with the Soviet Union would only be a licence foolishly granted to communist penetration of our democratic fabric. It is surprising that these people, who are vociferously apprehensive of the Chinese menace, do not realise that no responsible government in our country could deliberately fail to seek legitimate insurance in the form of good working relations with the Soviet Union.

This apart, it is significant that none other than Mr Chester Bowles, the US Ambassador in New Delhi, has, with great intellectual vigour and clarity, been able to realise and plead publicly for a co-operative endeavour between the Soviet Union and the United States for ensuring peaceful political and economic progress in India or elsewhere on the Asian continent. Recent developments relating to the possibilities of a joint Soviet-American (and-British) offer of a nuclear umbrella for non-nuclear states signing the non-proliferation treaty should teach the cold-warriors in our midst that our country will have little patience with (and less use for) the kind of petty-feuding which they may desire to keep up for reasons of their own. Pointing this out, Mr Krishnamachari declares with characteristic forthrightness that "the interests of Soviet Russia in Asia, as a part-Asian country, are considerable and, in the extremely fluid situation now existing in south-east Asia, the potential influence of the Soviet Union on Asian affairs cannot be minimized." As a thought this view is entertained by more people in our country than may care to confess to it in public. It goes to Mr Krishnamachari's credit that he has boldly come forward to say this in so many words. I am naturally looking forward to his writing more on public issues, whether in 'The Indian Express' or elsewhere. For the time being, Mr Krishnamachari has specifically promised to write for 'The Indian Express' a second article "later"—this would be on the working of Indo-Soviet enterprises as well as more generally on the functioning of the Indian economy in its productive aspect.

V.B.

Trade Winds

UCO JUBILEE

IT IS a happy augury that the phrase "social control of banks" is coming to be interpreted in more or less identical terms by both government—at any rate the Maharashtra government—and bankers. That the Silver Jubilee Celebrations of the United Commercial Bank Ltd, in Bombay, should have provided the occasion for a public demonstration of this is not without significance. Inaugurating the celebrations, Mr V. P. Naik, Chief Minister of Maharashtra, spelt out his interpretation of "social control of banks" to mean provision by banks of "equal opportunities to all kinds of producers like agriculturists, industrialists, and small artisans." This is no doubt what commercial banks have been doing for quite some time now, but it has become necessary now to talk about it—and this goes for bankers as well as politicians. Hence we have Mr R. B. Shah, the present Chairman of the United Commercial Bank, mentioning that the bank started financing seed farms in the Punjab over five years ago, that it has been a pioneer in extending help to small-scale industries in places like Surat and Ludhiana, and that the very first general manager of the bank—Mr B. T. Thakur—was bold enough to venture into the field of financing foreign trade even when it was a close preserve of foreign banks operating in the country.

Mr Shah traced the steady and rapid growth of the United Commercial Bank, which owes its origin to the vision and enterprise of Mr G. D. Birla, who could envisage even in the early 'forties the vital role that banks would have to play in the industrialisation of the nation in the wake of independence and the necessity, for that purpose, of enlarging and strengthening the structure of Indian banking. Mr Birla was the first chairman and continued to guide the bank in that capacity for 22 years, undoubtedly the most important years of its formative period. With its foundations strongly and solidly laid thus—total deposits had reached the Rs 100-crore mark, the paid-up capital had risen to Rs 2.80 crores and the number of branches had touched the 200-mark betimes—and the good fortune of having been successively managed by able and eminent bankers such as Mr Thakur and Mr S. T. Sadasivan, the United Commercial Bank is, as is to be expected, in the frontline of Indian banking today. In line with the present day concept a professional banker and one who has served the bank since its inception and in a number of responsible positions—Mr R. B. Shah—has already become its chairman. Giving an exposition of his views on how to give concrete shape to the concept of social control, Mr Shah said that "the man who works with both his hands is a good risk." He was referring to the farmer and the artisan. According to him, it is not at all difficult to lend to farmers and, what is noteworthy, farmers prefer to borrow from banks rather than from co-operatives. Rather interestingly he added that banks did not take long to find out the secret of the village sowcar's success and his willingness to take risks. Both lay, he said, in the agriculturist's intense attachment to his land; he will do anything to keep it.

It is relevant here to refer to an observation made by Mr G. D. Birla when he bowed out of office as chairman—and this was long before there was either the Congress party's ten-point programme or Mr Morarji Desai's social control of banks. "Banking," Mr Birla had pointed out, "is not just a money-lending business. It is, in the ultimate analysis, a service to the society at large. It requires faith and courage and idealism to turn the bank into a social welfare institution. Security and caution must be there. But these must be supplemented by imagination and a vision with a desire to serve the

society and the economy of the country. This alone can make the bank worthy of its name." It is not easy to improve upon this for an exhortation to our banks as they enter the era of social control.

TWO-TIER GOLD SYSTEM

The governors of the seven Gold Pool central banks, who met in Washington, following the unprecedented gold rush in European gold markets, have decided to have a two-tier gold system. Under this system, gold will be bought and sold amongst central banks at the official rate of \$35 an ounce, while free market price of gold will be determined by itself according to the availability of the yellow metal. The Gold Pool banks, which had earlier reiterated their resolve at Basle to defend the official price of gold, will no longer be selling gold in the free market. Nor will they be buying it, for they believe that the existing stock of monetary gold is sufficient to carry on world trade. They will also not be selling gold to those central banks which sell their own stocks in the free market and would like to replenish them by purchasing gold from the Gold Pool nations at the official price. The London gold market—by far the largest in the world—has been closed until April 1. Meanwhile, the United States has lifted the 55-year-old gold cover over dollar; this measure technically releases over \$11,000 million worth of US gold to counter the gold-buying spree. It has also raised its bank rate from 4½ per cent to five per cent, the highest since 1929. To correct its balance of payments deficit, which was \$3,300 million by 1967 end, the US has been taking a number of monetary and fiscal measures, the most recent among them being a 10 per cent surcharge on tax. The rumblings of the gold rush were felt all over the world. Canada raised its bank rate from seven to 7½ per cent and suspended trading in gold. Since the announcement of the two-price system, however, gold prices in the free markets have been witnessing a declining trend.

BANK DEPOSITS AND LENDING

Following the one per cent cut in the bank rate, interest rates on both deposits and lendings of commercial banks have been scaled down. A general reduction of half per cent has been announced in the bank deposit rates. The maximum rate on savings bank deposits will now be 3.50 per cent instead of four per cent per annum. Effective from March 4, new rates of interest on deposits are—15-45 days 1.25 per cent; and 46-90 days 2.50 per cent. Similarly, rates of term deposits have also been amended. The State Bank of India has also realigned its interest rates on deposits. Savings deposits will fetch 3.50 per cent, and those accounts in this category which will be subject to 91 days notice will accumulate interest at the rate of four per cent. The bank's term deposit rates range from four per cent to 6.50 per cent. The SBI has also brought down lending rates by half per cent to seven per cent. The bank's lending will, however, remain selective and the full benefit of the Bank rate cut will be passed on to lendings for foodgrain procurement, agricultural inputs, priority industries, export and import substitution industries and industries hit by recession. Meanwhile, the Reserve Bank has asked the commercial banks to reduce their lending rates so as to pass on the whole benefit to borrowers. Similarly, the Industrial Development Bank of India has cut its lending rates. The Reserve Bank has also decided that banks need not take into account their purchases or discounts of inland D/A bills having a usance of not more than 90 days while applying the norms stipulated by the bank in regard to the total of their unsecured advances and unsecured guarantees. It has

also resumed tap sales of its long-dated central government securities.

STATE BUDGETS

West Bengal

The West Bengal budget for 1968-69 was presented in the Lok Sabha by the union Finance Minister on March 13. It estimates revenue receipts at Rs 214.29 crores (1967-68 budget estimate and revised estimate being Rs 204.99 crores and Rs 201.11 crores respectively) as against revenue expenditure of Rs 215.29 crores (1967-68 budget and revised estimates being Rs 223.19 crores and Rs 211.40 crores), placing the revenue deficit at Rs 1.8 crores. However, a marginal overall surplus is expected as a result of the capital account showing a surplus of Rs 1.32 crores. The budget includes a provision of Rs 53.71 crores for the state plan, the centre's share being Rs 46.10 crores; the corresponding figures for the current year are Rs 55.81 crores and Rs 34 crores. No new taxes have been proposed.

Uttar Pradesh

The Uttar Pradesh 1968-69 budget, which was presented in the Lok Sabha on March 14, anticipates a small revenue surplus of Rs 77 lakhs, with receipts and expenditure on this account estimated at Rs 355.64 crores and Rs 354.87 crores respectively. This year's revenue receipts are estimated at Rs 331.78 crores as against the budget estimate of Rs 324.82 crores; and the expenditure at Rs 330.74 crores as against Rs 324.27 crores. The anticipated revenue surplus of Rs 77 lakhs is balanced by a deficit of Rs 74 lakhs on capital account. The budget provides for the plan outlay of Rs 143.54 crores, including the centre's share of Rs 75.60 crores; the corresponding figures for 1967-68 being Rs 150.96 crores and Rs 87.50 crores. No new taxes have been proposed.

Jammu and Kashmir

The Jammu and Kashmir budget presented in the state assembly on March 12 by the state Finance Minister, Mr D. P. Dhar, shows an overall deficit of Rs 60 lakhs. The revenue receipts are anticipated at Rs 49.26 crores as against the estimated revenue expenditure of Rs 54.56 crores. On capital account, receipts are expected to be higher by Rs 4.70 crores over expenditure of Rs 15.99 crores. The deficit is proposed to be met by new taxation, which includes enhanced general sales tax to yield Rs 25 lakhs additional increased excise duty on Indian-made foreign and country liquor (Rs 25 lakhs); enhanced tax on motor vehicles (Rs 10 lakhs); and enhanced electricity duty (Rs 5 lakhs). The state's annual plan has been allocated an outlay of Rs 21.70 crores as against the current year's Rs 20.25 crores (original provision) and Rs 21.95 crores (revised estimates).

Rajasthan

The Rajasthan Finance Minister, Mr Mathura Das Mathur, presented a deficit budget to the state legislature on March 8. The budget estimates revenue receipts at Rs 127.78 crores and expenditure at Rs 141.87 crores. A surplus of Rs 13.46 crores is estimated on capital account leaving an overall nominal deficit of Rs 63 lakhs, which is proposed to be covered, without any new taxation, by additional revenues from the proposed urban land tax and decrease in dearness allowance liability as a result of the fall in prices. Among the concessions that are proposed to be given are: reduction of sales tax on (a) motor vehicles, spare parts, tyres and tubes, etc. from 12 to 10 per cent; (b) tinned baby food from 10 to six per cent; (c) pesticides and fungicides from six to three per cent; and (d) woollen carpet yarn from three to one per cent. Some other measures for simplification of taxation have also been proposed. The government also plans to introduce a raffle to finance deve-

lopment schemes. The annual plan envisages an outlay of Rs 40.08 crores, inclusive of the centre's share of Rs 37.33 crores.

Haryana

The Haryana budget for 1968-69 was presented in the Lok Sabha by the union Finance Minister on March 6. The revenue receipts are placed at Rs 67.99 crores and revenue expenditure at Rs 66.35 crores. The surplus of Rs 1.64 crores on this account is to be virtually offset by a deficit of Rs 1.62 crores on capital account. The budget includes in the aggregate a plan provision of Rs 26.32 crores, both on revenue and capital accounts, and state plan and centrally-sponsored schemes, against Rs 28.03 crores this year. No new taxes have been proposed. Since Haryana is under President's rule, the budget is intended to obtain a vote on account for meeting the expenditure of the state government for four months, April to July.

Mysore

A surplus budget for 1968-69 was presented on March 1 in the state legislature by the Finance Minister of Mysore, Mr Ramakrishna Hegde. The revenue receipts are estimated at Rs 194.74 crores and expenditure at Rs 182.76 crores. The revenue surplus of Rs 11.98 crores, however, turns into a marginal overall surplus of Rs 89 lakhs when the deficit on capital account is taken into account. No new levies are proposed, except for a maintenance cess under Mysore Irrigation Act which is expected to yield an additional revenue of Rs 2.5 crores. The annual plan for 1968-69 envisages an outlay of Rs 60.25 crores (same as this year), the centre's share being Rs 36.90 crores.

Assam

The Assam budget for 1968-69 presented to the legislature on March 1 by Mr K. P. Tripathy, Minister of Finance, shows a deficit of Rs 13.82 crores. The receipts on revenue account are estimated at Rs 90.30 crores as against expenditure of Rs 91.67 crores. No new taxation has been proposed, but the Minister said that a few marginal adjustments might be made here and there. The state's 1968-69 plan envisages an expenditure of Rs 29.4 crores; the whole of it is to be contributed by the centre. To implement more schemes outside the plan, an allocation of Rs 21 crores has been made.

Bihar

The Bihar Chief Minister, Mr B. P. Mandal, presented on March 13 in the legislature the state's budget for 1968-69 showing an overall deficit of Rs 31.14 crores. Revenue receipts are estimated at Rs 152.85 crores as against expenditure of Rs 155.34 crores. On capital account, receipts have been placed at Rs 153.82 crores and expenditure at Rs 182.47 crores. No new taxes have been proposed.

I.C.I.C.I.

The gross sanctions by the Industrial Credit and Investment Corporation of India amounted to Rs 26.81 crores as against Rs 24.88 crores in the preceding year. Its net sanctions also increased from Rs 18.91 crores to Rs 21.56 crores during the same period. This was stated in Bombay on March 11 by the corporation's chairman, Mr G. L. Mehta. Its total sanctions during 1967 amounted to Rs 21.56 crores, of which an amount of Rs 17.55 crores was in respect of 46 specific projects. Mr Mehta said that the corporation's assistance last year was selective, being extended substantially to priority industries such as fertilisers, alloy steel and cement. Its total net sanctions as at the end of 1967 amounted to Rs 199.56 crores, while disbursements totalled Rs 137.86 crores. During the year, the corporation augmented its rupee re-

sources by issuing, for the first time, debentures for Rs 6 crores which were oversubscribed. It obtained from the World Bank a seventh line of credit of \$25 million, bringing the total lending from this source to \$165 million; and a sixth line of credit of DM 5 million from the Kreditanstalt für Wiederaufbau, taking the total to DM 65 million. The corporation's profits after tax amounted to Rs 1.40 crores against Rs 1.32 crores in 1966. The directors proposed to maintain the dividend at nine per cent.

UAR Rice for India: Egypt will supply India 40,000 tonnes of rice under an agreement signed recently.

PL 480 Funds for India: The Governments of India and the United States concluded on March 8 three agreements providing India with lines of credit totalling Rs 319.4 crores from PL 480 funds to help it in financing economic development. The loans are repayable over a period of 40 years, including an initial grace period of 10 years during which no repayment of principal is due. For one of the three credits (Rs 42.2 crores), India will pay interest at the rate of one per cent per annum during the grace period and for the other two credits at the rate of two per cent. During the latter 30 years of all the three loans, interest will be charged at the rate of two and one-half per cent. The loans are repayable in rupees.

Newsprint from USSR: Russia is to supply 52,500 tonnes of newsprint to India this year under a contract signed on March 11. The State Trading Corporation of India, which has struck the deal, has also made arrangements for the import of another 79,000 tonnes of newsprint in 1968-69.

Uganda Cotton: The Government of India has announced its decision to allow a mark-up in the value of Uganda cotton by 11 per cent in respect of contracts made prior to the devaluation of the pound sterling on November 18.

French Aid: France has offered India a credit of \$30 million (Rs 22.5 crores) for the current financial year, it is learnt. Half of this credit will be for the public sector and the other half for the private sector.

Jute Bags to Philippines: The State Trading Corporation, has won a large contract for the supply of jute bags to Philippines against very stiff competition from Pakistan. The contract is for 50 lakh standard bags, valued at Rs 57.38 lakhs.

Discount Shopping for BOAC Passengers in London: Personal shoppers in London from any place in the world who fly to Britain by BOAC are able to enjoy 10 per cent special discounts at a selection of the city's leading shops, art galleries, casinos, night clubs and restaurants. The scheme is operated by Planned Entertainments Ltd of London. A similar, small scheme also operates in Glasgow.

National Defence Fund: The progressive contribution to the National Defence Fund up to the end of February 1968 amounted to Rs 80.62 crores.

Vanaspati Prices Reduced: With effect from March 3, vanaspati prices were further reduced by 18 paise per kg in the north zone, 28 paise per kg in the south zone, 24 paise per kg in the east zone and 29 paise per kg in the west zone. Prices for a four kg tin in the respective zones now are Rs 16.50, Rs 16.66, Rs 16.69 and Rs 16.03.

Cement to Ceylon: The State Trading Corporation, has concluded a firm contract for the export of 25,000 tonnes of cement to Ceylon during the three-month period March-May. The cement is to be packed in jute bags. If the package is acceptable to Ceylon, an additional 50,000 tonnes will also be

exported by the Corporation during 1968-69. In addition, the Corporation has also finalised a deal for the export of 25,000 tonnes of clinker to Ceylon during the next six months.

Danish Loan: Denmark would give India shortly an interest-free loan of Rs 7 crores, Mr Poul Hartling, Danish Foreign Minister, announced in New Delhi on March 12. Out of this, Rs 4 crores would cover the import of capital goods and components from Denmark. The remaining Rs 3 crores would be food loan for the import of milk powder from Denmark. Mr Hartling said there were great export possibilities for Indian products to Denmark.

US Drawings from IMF: The Government of United States has drawn the equivalent of \$200 million from the International Monetary Fund in the following currencies: Netherlands guilders (\$100 million), Italian lire (\$50 million), deutschmark (\$35 million) and Belgian francs (\$15 million). The United States quota in the Fund is \$5,160 million, of which its subscription in gold amounts to the equivalent of \$1,290 million. After the transaction, outstanding US drawings total the equivalent of \$751.3 million. The United States last made use of the Fund's resources in December, 1966.

Tea Packers Association: At the seventh annual general meeting of the Tea Packers Association held in Calcutta, its president, Mr B. C. Biyani, drew attention to the problems facing the packet tea industry. While appreciating the government's decision to exempt instant tea from export duty, Mr Biyani regretted that renewed appeal for full relief from export duty on packet tea was not being granted. The office bearers of the association for this year are: Mr A. Johnstone (Lipton) President, Mr D. K. Ghosh (A. Tosh) Vice-President, Mr J. G. Robinson (Brooke Bond) Treasurer, Mr Sumat Prashad (Devenport) Member, Miss Uma Kruparidhi (Brooke Bond) Secretary.

Pfizer Institutes Medical Scholarships: Pfizer Limited has instituted the Pfizer Post-Graduate Medical Scholarship Scheme and the Pfizer Gold Medal in Medicine, with a view to aid and encourage promising medical talent in the country. The scheme will cover on a rotation basis all the universities in India which have medical faculties. Every year, 20 scholarships and gold medals will be awarded and 21 first class medical graduates will pursue their post-graduate studies for the MS or MD degree as 'Pfizer Scholars'.

Tripoli Fair: Trade between India and Libya is likely to get a boost as a result of trade enquiries which are flowing in at the Indian pavilion in Tripoli Fair. The Government of India has also decided to participate in the Budapest (Hungary) international fair scheduled to be held in May and to organise an Indian exhibition at Prague (Czechoslovakia) in June, 1968.

Liberal Exchange for Exports: The scheme for blanket allotment of foreign exchange for export purposes has been liberalised. Under the scheme, export houses and exporters with a minimum annual overseas trade performance of Rs 5 lakhs in non-traditional items will now be eligible for blanket releases. Hitherto, those with an annual export performance of Rs 20 lakhs alone were eligible for the facility.

Wagons to Russia: A protocol for export of railway wagons was signed on March 13 between the State Trading Corporation of India and the 'Machinoimport' of the USSR. The protocol provides for export of 2,000 wagons in 1969-70, rising progressively to 10,000 wagons by 1972-73.

HMT Exports: The Hindustan Machine Tools have secured export orders worth Rs 45 lakhs for 1967-68. This was stated by its chairman, Mr S. M. Patil, in Madras. The HMT was exploring the market in Middle East, Africa, Malaysia and Indonesia. It was also trying to introduce its machine tools in Ceylon.

ever growing—always serving

141.78 CRORES
124.13 CRORES
11.04 CRORES
97.56 CRORES

Canara Bank resources
now reach a new high of Rs. 141.78 crores

The position as on 31-12-67

Deposits	Rs. 126.56 crores
Paid up Capital	Rs. 1.25 crores
Reserves	Rs. 1.44 crores
Investments	Rs. 38.39 crores
Advances	Rs. 80.35 crores
Resources	Rs. 141.78 crores
Net Profit	Rs. 39.64 lakhs
Branches	247

Early last year we pledged continued service and growth for your prosperity. We are glad this pledge was fulfilled and renew it for the years to come. We at the Canara Bank, are always exploring new avenues of service to our customers. The continued confidence of our many constituents, old and new—thus spurs us on to provide the best in service that modern banking in India can offer for the Nation's economic progress.



CANARA BANK LTD.

(Estd. 1906)

Regd. Office: Lighthouse Hill, Mangalore

Admn. Office: Jayachamarajendra Road, Bangalore.

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Benefits to Employers

1. Handsome tax benefits accrue, as employers' contributions to these schemes are allowed as business expenses.
2. Cost of administering schemes arranged with Corporation is less than if similar schemes were managed individually. Expenses of obtaining actuarial advice saved.
3. These schemes help reduce staff turnover, saving expenses of training new staff.
4. Better people are attracted and retained to the advantage of the company.
5. Superior staff leads to a more efficient organisation... higher profits.

Benefits to Employees

1. In addition to the usual gratuity benefits, life cover is provided. This means that in the event of premature death, the gratuity due as on completion of the whole span of service is granted to the estate of the employee.
2. The employer's contribution to these schemes is not classified as a perquisite and hence not liable to tax.
3. The Superannuation Scheme provides a pension to the employee or jointly to himself and his wife—a fitting reward for a lifetime of devoted service. Employees can retire in dignity making way gracefully for younger people.



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Life Insurance Corporation of India

THE UNITED COMMERCIAL BANK LIMITED

Registered Office: 10, BRABOURNE ROAD, CALCUTTA-1.

Report of the Directors

The Directors have pleasure in submitting to the Shareholders their Twentyfifth Annual Report and Balance Sheet and Profit & Loss Account of the Bank for the year ended 31st December, 1967.

The net profit for the year, after providing for taxes and for all known and anticipated charges, and including Rs. 3,41,973=36 brought forward from the previous account amounts to Rs. 89,31,267=94

An interim dividend was paid at the rate of 6 per cent, subject to deduction of tax which absorbed Rs. 16,80,000/-. The Directors have transferred Rs. 18,20,000/- to the Reserve Fund, Rs. 22,40,000/- to Special Reserve and provided Rs. 30,00,000/- for Bonus to staff leaving an unappropriated balance of Rs. 1,91,267=94 to be carried forward.

The Directors recommend the payment of a final dividend at the rate of 8 per cent, subject to deduction of tax, making 14 per cent for the year which will be paid out of the Special Reserve and which will absorb Rs. 22,40,000/-.

The Bank's business during the year showed satisfactory progress.

During the year under review 28 branches were opened in India, 18 at banked centres and 10 at unbanked centres. At the end of 1967 the total number of branches stood at 276—227 in banked centres and 40 in unbanked centres in India and 9 in foreign countries.

As no information has been received with regard to the Bank's branch at Karachi in Pakistan since its take over in September, 1965 by the Custodian of Enemy Property, Pakistan, it is being treated as defunct. The figures of Assets and Liabilities of this branch available continue to be those as on 27th August, 1965 and they have now been shown in the Balance Sheet at the net value and not under individual heads at the exchange rate prevailing before devaluation of the Rupee.

The Bank took over on 15th September, 1967 Liabilities and Assets valued at Rs. 66,796=49 and Rs. 1,52,779=68 respectively of the Jalpaiguri Banking and Trading Corporation Ltd., carrying on banking business at its only office at Jalpaiguri.

The Bank completed 25 years of its existence on 6th January, 1968. The first function to celebrate the Silver Jubilee was held at Calcutta on 16th January, 1968 which was presided over by the founder Chairman, Mr G. D. Birla. Functions to celebrate the Silver Jubilee at other important centres will be held during the course of this year.

The Directors acknowledge with thanks and place on record their appreciation of the innumerable messages of good wishes received on this occasion from the Shareholders, the depositors and the clientele of the Bank and the foreign banks.

The Government of India's policy of Social Control over banks was announced by the Deputy Prime Minister in the Lok Sabha on 14th December and to give effect to it the Banking Laws (Amendment) Bill was introduced in the Parliament on 23rd December, 1967. The provisions of the Bill connected with the Management of banks relate to the reconstitution of the Boards of Directors of banks and the appointment of a whole-time Chairman. The majority of the persons on the Boards of Directors shall have to be those having special knowledge of or practical experience in accountancy, agriculture, rural economy, banking, co-operation, economics, finance, law, small-scale industry and other matters which are useful to banks. Such Directors should not have substantial interest in or active association with large or medium sized industrial or business undertakings. The Chairman of a bank is required to be a professional banker devoting his full time to the conduct of the affairs of the bank and also its Chief Executive Officer. In order to comply with the policy of the Government of India and the provisions of the Bill, the Board of Directors of the Bank has been reconstituted. Mr I. P. Goenka who, as Chairman of the Board of Directors, had been ably steering the affairs of the Bank since 29th August, 1964 expressed his desire to retire from the membership of the Board on 18th January, 1968. Mr I. P. Goenka was associated with the Bank as a Director since its inception and as Vice-Chairman for 16 years. The Board has accepted with regret his decision to retire and wish to place on record their appreciation of his very valuable guidance, wise counsel and great contribution to the building up of the Bank. Mr R. B. Shah who was the General Manager of the Bank has been appointed as from 17th January, 1968 as a whole-time Director and Chairman of the Board of Directors as also the Bank's Chief Executive Officer.

Mr. M. L. Tapuria, Mr. A. C. Law and Mr. G. D. Kothari have also retired from the membership of the Board. The Board has accepted with regret their decision to retire and wish to place on record their appreciation of the very valuable guidance and counsel given by them during their period of office.

The undermentioned persons were invited to join the Board as additional Directors:

Mr. Anil Chandra Mitra, B.A., Barrister-at-Law

Mr. Rabindra Nath Sen, M.A., LL.B., B.Com. (London), F.C.A. (Eng. & Wales) Chartered Accountant

Mr. Raghunath Singh M.A., LL.B.

Lala Ravi S. Ramsarndas, B.A.

Mr. Champaklal Dalichand Shah, M.A., B.Com.

Under Article 84 of the Bank's Articles of Association they hold office up to the date of this Annual General Meeting and, being eligible, offer themselves for re-appointment.

Under Article 92 of the Bank's Articles of Association Mr M. P. Birla, Mr T. S. Rajam and Mr M. R. Ruia retire by rotation, and, being eligible, offer themselves for reappointment.

The Directors desire to record with appreciation and gratitude the sustained support the Bank has received from its shareholders, depositors and clients alike in its progress. The thanks of the Directors also go in equal measure to the Bank's advisers and members of Advisory Committees, whose help and guidance have greatly contributed to the progress of the Bank.

The Directors also thank the General Manager and the staff of the Bank, past and present, for their meritorious performance during the first 25 years of the Bank's working.

The Shareholders are requested to appoint Auditors for the current year and to fix their remuneration.

CALCUTTA,

R. B. SHAH
Chairman.

The United Commercial Balance Sheet as

CAPITAL AND LIABILITIES	December 31, 1967		December 31, 1966	
	Rs.	p.	Rs.	Rs.
1. CAPITAL:				
Authorised Capital: 8,00,000 shares of Rs. 100 each ...	8,00,00,000	00	8,00,00,000	
Issued Capital: 6,00,000 shares of Rs. 100 each ...	6,00,00,000	00	6,00,00,000	
Subscribed Capital: 5,60,000 shares of Rs. 100 each ...	5,60,00,000	00	5,60,00,000	
Amount Called up: 5,60,000 shares at Rs. 50 per share			2,80,00,000	2,80,00,000
2. RESERVE FUND AND OTHER RESERVES:				
(a) Reserve Fund ...	3,49,50,000	00	3,31,30,000	
(b) Share Premium Account ...	40,00,000	00	40,00,000	
(c) Special Reserve ...	22,40,000	00	19,60,000	
(d) Development Rebate Reserve ...	9,10,000	00	9,10,000	4,00,00,000
3. DEPOSITS AND OTHER ACCOUNTS:				
Fixed Deposits ...	1,07,98,14,682	27	95,79,43,226	
Savings Bank Deposits ...	39,15,70,247	76	31,87,20,099	
Current Accounts, Contingency Accounts, etc. ...	67,99,87,572	86	2,15,13,72,502	89
			62,55,08,002	1,90,21,71,327
4. BORROWINGS FROM OTHER BANKING COMPANIES, AGENTS, ETC.:				
(i) In India ...	3,86,96,715	12	3,57,28,954	
[Includes borrowing from Industrial Development Bank of India of Rs. 3,70,61,715=12 (Previous year—Rs. 3,57,28,953=84) and from Agricultural Refinance Corporation of Rs. 15,00,000=00 (Previous year—Nil)]				
(ii) Outside India ...	27,34,531	84	4,14,31,246	96
			62,25,059	4,19,54,015
PARTICULARS:				
(i) Secured by part of Investments and Advances per contra ...	3,86,96,715	12	3,72,97,829	
(ii) Unsecured ...	27,34,531	84	46,56,184	
			4,14,31,246	96
			4,19,54,013	
Carried over ...			2,26,29,03,749	85
			2,01,21,25,340	

Bank, Limited at 31st December, 1967

PROPERTY AND ASSETS	December 31, 1967		December 31, 1966	
	Rs.	p.	Rs.	Rs.
1. CASH				
In hand and with Reserve Bank of India and State Bank of India (including foreign currency notes) ...	18,90,72,642	78	...	16,11,61,726
2. BALANCES WITH OTHER BANKS:				
On current account:				
(i) In India	Rs. 75,67,430	08	98,43,809	
(ii) Outside India	Rs. 5,81,16,576	74	2,74,46,966	3,72,90,775
			5,80,62,350	00
3. MONEY AT CALL AND SHORT NOTICE			31,28,18,999	60
				23,18,69,001
4. INVESTMENTS:				
(i) Securities of the Central and State Governments and other Trustee Securities, including Treasury Bills of the Central and State Governments—at Book Value ...	60,30,43,876	76	50,52,50,662	
(ii) Shares at below Market Value:				
(a) Fully Paid Preference Shares ...	2,35,892	50	9,42,293	
(b) Fully Paid Ordinary Shares ...	56,44,228	20	51,15,469	
(c) Partly Paid Ordinary Shares ...	1,45,375	00	7,53,562	
(iii) Debentures or Bonds at below Market Value:	40,98,665	00	23,66,070	
(iv) Other Investments at below Market Value:				
(a) Securities of Foreign Governments and Foreign Trustee Securities ...	1,05,92,854	35	1,55,97,678	
(b) Unit Trust of India (Initial Capital) ...	4,50,000	00	4,50,000	
(v) Gold ...			62,42,10,891	81
				53,04,75,734
5. ADVANCES:				
(Other than bad and doubtful debts for which provision has been made to the satisfaction of the Auditors)				
(I) Loans, Cash Credits, Overdrafts, etc.:				
(i) In India	Rs. 92,38,91,462	19	81,53,55,230	
[Includes Rs. 4,32,91,715=12 (Previous Year—Rs. 3,99,08,953=84) and Rs. 15,00,000=00 (Previous Year—Nil) relating to medium-term advances in respect of which finance has been obtained from Industrial Development Bank of India and Agricultural Refinance Corporation respectively as per contra.]				
(ii) Outside India	Rs. 8,84,96,971	73	1,01,23,88,433	92
				10,84,13,489
(II) Bills Discounted and Purchased (excluding Treasury Bills of the Central and State Governments)				
(i) Payable in India	Rs. 26,04,03,266	62	24,25,66,664	
[Includes an amount of Rs. 1,75,00,000=00 (Previous Year—Nil) of Usance Promissory Notes lodged with Reserve Bank of India for advances under Section 17 (4) (c) of The Reserve Bank of India Act.]				
(ii) Payable outside India	Rs. 9,42,22,453	83	11,00,00,532	
			35,46,25,720	45
			1,36,70,14,154	37
			35,25,67,196	1,27,63,35,915
Carried over ...			2,30,40,44,045	78
				2,03,86,80,650

The United Commercial Balance Sheet as

CAPITAL AND LIABILITIES	December 31, 1967				December 31, 1966	
	Rs.	p.	Rs.	p.	Rs.	Rs.
Brought forward ...			2,26,29,03,749	85		2,01,21,25,340
5. BILLS PAYABLE ...			2,81,33,579	73		2,75,04,636
6. BILLS FOR COLLECTION BEING BILLS RECEIVABLE as per contra:						
(i) Payable in India ...	17,41,83,198	30			15,53,71,606	
(ii) Payable outside India ...	5,59,17,277	77	23,01,00,476	07	4,68,40,422	20,22,12,028
7. OTHER LIABILITIES						
(i) Branch adjustments ...	7,03,90,508	59			5,06,26,429	
(ii) Unclaimed Dividends etc. ...	27,30,194	34	7,31,20,702	93	16,64,226	5,22,90,655
8. ACCEPTANCES, ENDORSEMENTS AND OTHER OBLIGATIONS per contra ...			26,34,01,768	91		30,54,05,928
9. PROFIT AND LOSS:						
Profit as per last Balance-Sheet ...	3,41,973	36			5,93,373	
Less Bonus for 1965 paid to staff in excess of appropriation ...					1,36,497	
	3,41,973	36			4,56,876	
Add Profit for the year subject to bonus ...	85,89,294	58			84,55,097	
	89,31,267	94			89,11,973	
Less Appropriations made:						
To Reserve Fund Rs. 18,20,000 00					17,30,000	
To Silver Jubilee Celebration Fund ...					5,00,000	
To Interim Dividend Rs. 16,80,000 00					16,80,000	
To Special Reserve Rs. 22,40,000 00					19,60,000	
To Bonus to staff Rs. 30,00,000 00					27,00,000	
	87,40,000	00	1,91,267	94	85,70,000	3,41,973
Carried over ...			2,85,78,51,545	43		2,59,98,80,560

Bank, Limited at 31st December, 1967

PROPERTY AND ASSETS	December 31, 1967				December 31, 1966	
	Rs.	p.	Rs.	p.	Rs.	Rs.
Brought forward ...			2,30,40,44,045	78		2,03,86,80,650
ARTICULARS OF ADVANCES:						
(i) Debts considered good in respect of which the banking company is fully secured ...	1,07,43,05,610	59			1,00,54,58,486	
(ii) Debts considered good for which the banking company holds no other security than the debtor's personal security ...	11,40,10,820	90			11,96,69,713	
(iii) Debts considered good secured by the personal liabilities of one or more parties in addition to the personal security of the debtors ...	17,86,97,722	88			15,12,07,716	
(iv) Debts considered doubtful or bad, not provided for ...	Nil				Nil	
	1,36,70,14,154	37			1,27,63,35,915	
(v) Debts due by directors or officers of the banking company or any of them either severally or jointly with any other persons ...	10,19,482	76			9,86,395	
(vi) Debts due by companies or firms in which the directors of the banking company are interested as directors, partners or managing agents or, in the case of private companies, as members ...	18,06,53,831	99			19,69,60,631	
(vii) Maximum total amount of advances, including temporary advances made at any time during the year to directors or managers or officers of the banking company or any of them either severally or jointly with any other persons ...	10,69,314	54			10,31,244	
(viii) Maximum total amount of advances, including temporary advances granted during the year to the companies or firms in which the directors of the banking company are interested as directors, partners or managing agents or, in the case of private companies, as members ...	22,27,89,115	65			20,78,98,763	
(ix) Due from banking companies ...	75,38,679	32			40,39,332	
6. BILLS RECEIVABLE BEING BILLS FOR COLLECTION as per contra:						
(i) Payable in India ...	17,41,83,198	30			15,53,71,606	
(ii) Payable outside India ...	5,59,17,277	77	23,01,00,476	07	4,68,40,422	20,22,12,028
Carried over ...			2,53,41,44,521	85		2,24,08,92,678

The United Commercial Balance Sheet as

CAPITAL AND LIABILITIES	December 31, 1967				December 31, 1966	
	Rs.	p.	Rs.	p.	Rs.	Rs.
Brought forward			2,85,78,51,545	43	...	2,59,98,80,560
10. CONTINGENT LIABILITIES						
(i) On Partly Paid shares	Rs.		1,45,375	00	...	
(ii) Claims against the banking company not acknowledged as debts	Rs.		6,20,065	99	...	
(iii) Guarantees given on behalf of customers and Correspondent Banks	Rs.		63,72,61,201	32	...	
(iv) Bills of Exchange Rediscounted with the Industrial Development Bank of India	Rs.		53,94,963	07	...	
(v) Forward Exchange Contracts outstanding for the purchase and sale of Bills and Telegraphic Transfers of which up to 29-2-1968 Rs. 10,56,48,547=42 have been delivered	Rs.		22,78,49,905	88	...	
Note: (1) There is a liability for outstanding bills, not certified by the architects, in respect of the Bank's buildings.						
(2) Provision in full for gratuity accruing on retirement of staff has not been made.						
(3) The Income-tax assessments in India for the year 1949 to 1958 have been reopened as the Income-tax Officer has differed with the method adopted in the past by the Department for allowing Double Income-tax Relief. Tax liability for the years 1959 to 1961 and provisional demand for 1962 have been calculated by him according to the new method. The Bank has disputed the action of the Income-tax Officer. No provision has been made in the accounts in respect of the demand for reopened assessments which may ultimately be fixed by the Department. Tax provisions for the year 1962 to 1967 have been made on the basis adopted all along in the past and previously accepted by the Department.						
(4) The Assets & Liabilities of Branches in foreign countries (except of Karachi Branch in Pakistan) have been incorporated at current rates of exchange.						
(5) The certified return received from the Bank's Karachi Branch in Pakistan as of 27th August, 1965 was the last return received from the Branch. After the outbreak of hostilities between India and Pakistan, the management of the Karachi Branch has been taken over by the Custodian appointed by the Government of Pakistan. As no further information is available, the assets and liabilities in Pakistan have not been shown in the Balance Sheet under the individual heads but only the net book value thereof has been incorporated.						
Total Rs.			2,85,78,51,545	43		2,59,98,80,560

Bank, Limited at 31st December, 1967

PROPERTY AND ASSETS	December 31, 1967				December 31, 1966	
	Rs.	p.	Rs.	p.	Rs.	Rs.
Brought forward			2,53,41,44,521	85		2,24,08,92,678
7. CONSTITUENTS' LIABILITIES FOR ACCEPTANCES, ENDORSEMENTS AND OTHER OBLIGATIONS per contra			26,34,01,768	91		30,54,05,928
8. PREMISES LESS DEPRECIATION:						
Cost as per last balance-sheet	Rs.		2,45,71,348	59		1,99,95,025
Effective figure for above cost on conversion of Premises in the books of foreign branches at current rates of exchange on 31-12-67			2,45,12,467	16		2,29,77,021
Additions (Rs. 5,63,805=98) Less deductions (Rs. 15,696=29) during the year			5,48,109	69		15,94,327
			2,50,60,576	85		2,45,71,348
Less depreciation written off to date			31,40,633	64	2,19,19,943	21
					27,66,723	2,18,04,625
9. FURNITURE AND FIXTURES LESS DEPRECIATION: (including vehicles and equipment)						
Cost as per last balance-sheet	Rs.		2,76,63,144	90		2,24,10,636
Effective figure for above cost on conversion of Furniture, Fixtures & Motor Vehicles etc. in the books of foreign branches at current rates of exchange on 31-12-67			2,74,66,544	94		2,41,39,218
Additions (Rs. 57,48,752=01) Less deductions (Rs. 2,55,932=38) during the year			54,92,819	63		35,23,927
			3,29,59,364	57		2,76,63,145
Less depreciation written off to date			1,53,15,560	56	1,76,43,804	01
					1,34,65,707	1,41,97,438
10. OTHER ASSETS, INCLUDING SILVER:						
(i) Land and Buildings:						
Cost as per last balance-sheet	Rs.		19,41,815	61		20,40,891
Additions (Rs. 24,93,090=84)						
Less deductions (Rs. Nil) during the year						
	Rs.		24,93,090	84		8,04,195
Less Transfer to Premises account	Rs.		44,34,906	45		28,45,086
						9,03,270
			44,34,906	45		19,41,816
(ii) Interest accrued on Investments			59,83,824	17		47,83,526
(iii) Advance payments of Income-tax and refund of taxes due in foreign countries			98,03,445	10		1,03,22,320
(iv) Stamps and Stationery			99,928	18		1,17,229
(v) Silver					2,03,22,103	90
						1,71,64,891
11. NON-BANKING ASSETS ACQUIRED IN SATISFACTION OF CLAIMS:						
Land and Buildings (at cost)					4,19,403	55
						4,15,000
12. PROFIT AND LOSS						
Total Rs.			2,85,78,51,545	43		2,59,98,80,560

The United Commercial
Profit and Loss Account

EXPENDITURE	Year ended		Year ended
	Dec. 31, 1967		Dec. 31, 1966
	Rs.	p.	Rs
1. Interest paid on deposits, borrowings, etc.	7,16,23,028	25	6,42,58,700
2. Salaries and allowances and Provident Fund	4,58,36,594	37	3,83,19,736
3. Directors' (Rs. 74,400) and Local Committee members' fees and allowances ...	1,05,690	00	1,06,550
4. Rent, Taxes, Insurance, Lighting, etc.	57,85,774	54	50,70,615
5. Law charges	1,03,541	73	2,45,369
6. Postage, Telegrams and Stamps	22,18,764	10	19,56,037
7. Auditors' fees for statutory and periodical audits	2,54,351	44	2,49,274
8. Depreciation on, and repairs to, the Banking Company's property ...	27,95,850	34	23,89,754
9. Stationery, Printing, Advertisement, etc.	40,06,012	70	32,12,768
10. Loss from sale of, or dealing with, non-banking assets	...	...	...
11. Other Expenditure	57,18,972	88	41,98,365
12. Balance of Profit subject to bonus	85,89,294	58	84,55,097
Note: Particulars of total remuneration Rs. 94,632=10 relating to the General Manager (Chief Executive Officer):—			
(i) Salary Rs. 72,000 (ii) Allowances Rs. 6,000 (iii) Contribution to the Provident Fund Rs. 6,000 (iv) Monetary Value of Perquisites (Free Quarters, Motor Car and Medical Aid) Rs. 10,632=10			
Total Rs. ...	14,70,37,874	93	12,84,62,265

The above Accounts have been drawn up in accordance with the provisions of Section 29 of the Banking Regulation Act, 1949.

M. R. RUIA
T. S. RAJAM
M. NOPANY
A. C. MITRA
LALA RAVI S. RAMSARNIDAS
Directors

R. B. SHAH
Chairman
M. P. BIRLA
SHRENIK KASTURBHAI
S. T. SADASIVAN
R. N. SEN
Directors

Y. N. MAFATLAL
R. N. BANGUR
R. R. HATTIANGADI
RAGHUNATH SINGH
C. D. SHAH
Directors

Bank, Limited
Year Ended 31st December, 1967

INCOME	Year ended		Year ended
	Dec. 31, 1967		Dec. 31, 1966
(Less provision made during the year for bad and doubtful debts and other usual or necessary provisions)	Rs.	p.	Rs
1. Interest and Discount	11,59,58,042	50	10,04,25,438
2. Commission, Exchange and Brokerage	2,92,65,610	79	2,65,15,422
3. Rents	18,14,171	16	15,11,005
4. Net profit on sale of investments, gold and silver, land, premises and other assets (not credited to Reserves or any particular Fund or Account) ...	...	...	...
5. Net profit on revaluation of investments, gold and silver, land, premises and other assets (not credited to Reserves or any particular Fund or Account) ...	...	...	...
6. Income from non-banking assets and profit from sale of, or dealing with, such assets	50	48	10,400
7. Other receipts	...	...	...
8. Loss	...	...	...
Total Rs. ...	14,70,37,874	93	12,84,62,265
As per our report annexed.			
G. P. KAPADIA & CO. K. N. GUTGUTIA & CO. RAY & RAY Chartered Accountants			
CALCUTTA, 9th March, 1968.	V. R. DESAI Asst. General Manager		

REPORT OF THE AUDITORS

TO THE MEMBERS OF THE UNITED COMMERCIAL BANK, LIMITED

We have audited the attached Balance-sheet of the United Commercial Bank, Limited, as at 31st December, 1967, and the Profit and Loss Account of the Bank for the year ended upon that date, annexed thereto, in which are incorporated Branch returns, except of Karachi Branch, audited by Statutory or other Auditors and certified returns of Karachi Branch as of 27th August, 1965 (vide Note 5 to the Balance-sheet) for which exemption from provisions of Sec. 228 of Companies Act, 1956 has been obtained from the Central Government under clause (1) (d) of Rule 4 of the Companies (Branch Audit Exemption) Rules, 1961. The reports on the accounts of the Branches audited by other Auditors have been forwarded to us and dealt with in preparing our report in the manner considered necessary by us.

We report that:

- (a) we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit and have found them to be satisfactory;
- (b) the transactions of the Bank which have come to our notice have been within the powers of the Bank;
- (c) in our opinion, proper books of account, as required by law, have been kept by the Bank so far as appears from our examination of those books, and proper returns adequate for the purpose of our audit have been received from the Branches of the Bank;
- (d) the Bank's Balance-sheet and Profit and Loss Account, dealt with by this report, are in agreement with the books of account and the returns;
- (e) in our opinion, and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required for banking companies and, on such basis, the said Balance-sheet gives a true and fair view of the state of the affairs of the Bank as at 31st December, 1967, and the Profit and Loss Account gives a true and fair view of the profit for the year ended upon that date.

CALCUTTA,
9th March, 1968.

G. P. KAPADIA & CO.
K. N. GUTGUTIA & CO.
RAY & RAY
Chartered Accountants

COMPANY MEETINGS

THE UNITED COMMERCIAL BANK LIMITED

Twenty-five Years of Phenomenal Progress

STATEMENT OF THE CHAIRMAN, MR. R. B. SHAH

The Annual General Meeting of the Shareholders of the United Commercial Bank Ltd., will be held at the Registered Office of the Bank at 10, Brabourne Road, Calcutta, on Wednesday the 10th April, 1968 at 4 P.M. The following is the full statement by the Bank's Chairman, Mr. R. B. Shah, circulated to the Shareholders with the Directors' Report and Accounts for the year ended 31st December 1967.

Early in the year the United Commercial Bank celebrated its Silver Jubilee and, appropriately, Mr G. D. Birla, the Founder-Chairman, presided over the first function which was held in Calcutta. Shareholders will doubtless be gratified with the progress that has been achieved in the first 25 years of existence of the Bank, and, I am sure, they will join me in placing on record the invaluable contributions of Mr Birla and Mr I. P. Goenka, my predecessor, as also of the General Managers of the Bank, who, with patient care and alert watchfulness, have nurtured this institution from its days of robust infancy to the present sturdy youth. I would also like to take this opportunity of expressing my gratitude to the constituents who have reposed so much confidence in the Bank. Lastly, and most importantly, I would like to pay tribute to the staff, past and present, whose loyalty and hard work have contributed not a little to the swift and steady progress of Ucobank.

I would also like to take this opportunity to welcome on our Board Mr A. C. Mitra, Mr R. N. Sen, Mr Raghunath Singh, Lala Ravi S. Ramsarndas and Mr C. D. Shah. This broad-basing of the Board, by making available specialised knowledge, will make us better equipped to achieve the objective that the Government has now set for the banking system.

In such reorganization of the Board, Mr I. P. Goenka not only laid down office as Chairman but, at his desire, after an association of 25 years with the Bank, decided to retire from the Board. It was with much regret that his resignation was accepted, since his guiding hand and wise counsel had proved invaluable to the Bank. I would also like to thank Mr M. L. Tapuriah, Mr A. C. Law and Mr G. D. Kothari for the valuable services they rendered while on the Board of the Bank.

DEPOSITS

In spite of the troubled state of the country's economy, the Bank made satisfactory progress during the past year. The deposit resources rose from Rs. 190.22 crores to Rs. 215.14 crores. Although Current Accounts and Fixed Deposits did not show the same increase as in 1966, the rate of growth of Savings Deposits was more or less maintained.

LIQUID ASSETS & LIQUIDITY RATIO

The total of our liquid assets in the form of Cash in Hand, Balances with Banks and Money at Call and Short Notice was Rs. 31.28 crores and formed 14.5 per cent of our deposit liabilities as against Rs. 23.19 crores (12.2 per cent) at the end of the previous year. The investments of the Bank also showed a rise of Rs. 9.37 crores, the major portion of this rise representing securities of the Central and State

Governments including Treasury Bills. A substantial amount has also been invested in debentures of the various Central Co-operative Land Mortgage Banks in recognition of our responsibility to increase assistance to the agricultural sector.

The liquidity ratio, with cash and bank balances, Money at Call and Short Notice and unencumbered Government securities totalling Rs. 92.64 crores, worked out to nearly 43 per cent as against 40 per cent at the end of the previous year.

ADVANCES & BILLS

At the beginning of the 1966-67 busy season, the Reserve Bank of India issued a directive to all bigger banks that they should ensure that at least 80 per cent of the increase in their advances portfolio should be channelled to industrial borrowers and/or against import and export bills. While complying with this directive, advances for trade and commerce had to be curtailed to some extent. The directive, however, was withdrawn with effect from 28th April 1967, but the banks were urged so to conduct their credit operations as to abide by the spirit of the directive even in the slack season months. The Reserve Bank also introduced certain measures to tighten credit in respect of some of the sensitive commodities of domestic origin such as foodgrains, cotton, oilseeds, vegetable oils, raw jute, sugar and gur which were in short supply. In August 1967 the Reserve Bank urged the banks to enlarge their assistance to priority sectors like agriculture, exports, small industries and, in the context of the recessionary trends, to the domestic engineering industries, especially those having export potentialities. Banks were also directed to charge interest at not more than 6 per cent per annum on packing credit advances made to exporters of engineering and metallurgical products and 8 per cent per annum on advances to exporters of products other than engineering and metallurgical. The Reserve Bank also laid down certain guidelines to banks for regulation of advances against shares and for issuance of clear guarantees.

The recession in industry and the selective credit control measures resulted in a much smaller rise in our advances and bills portfolio. Thus, the rise in this portfolio during the year was only Rs. 9.07 crores as against nearly Rs 25 crores in the previous year. Consequently the credit ratio was lower at 64 per cent as compared to 67 per cent at the end of the previous year and 70 per cent at the end of 1965.

PROFIT & LOSS A/C.

In the context of the Bank having had to invest a comparatively larger portion of the accretion to deposits in Treasury Bills and the lower level of advances, the rising trend of expenses has been a disturbing feature. The rise in salaries

and wages is of the order of Rs. 75 lakhs. It has, however, been possible to maintain the profit at about the same level as last year, though in terms of the increase in resources it could have been better but for the factors mentioned earlier.

RESERVE FUND

With the transfer of Rs. 18.20 lakhs to the Reserve Fund and Rs. 22.40 lakhs to the Special Reserve the total reserves of the Bank stand at Rs. 4.21 crores.

THE YEAR IN REVIEW

The recessionary year, as we have already seen, was partly reflected in the working of Ucobank and its results for 1967. I may now turn to a review of the highlights of a momentous year.

THE RECESSION

As the Deputy Prime Minister remarked a few days ago while introducing the Budget for 1968-69, the last year proved to be one of the most difficult periods since independence. The scars left by two wars which the country was forced to fight and the problems posed by two successive years of drought—a phenomenon which occurred for the first time after 92 years in India's recorded history—could not but pose for the nation as a whole intricate and complex problems whose solution at times seemed beyond our competence. We also saw a paradoxical economic situation wherein recession in demand for goods was nevertheless accompanied by a continuing rise in prices. The causes leading to the recession in demand—there were few areas in the economy which did not suffer—need not be gone into in any detail at this juncture; the broad fact is that perspective planning estimates under the taken in the late fifties proved, consequent on the higher defence expenditure which this country was compelled to commit itself to as well as the Government's tax policies since that time to marshal larger revenues, to have got distorted and production capacities built upon such bases were substantially in excess of demands actually arising. In recognition of the existence of such recessionary trends, Government instituted a policy to counter recession, the main ingredients of that policy, as described in the Economic Survey for 1967-68, being:

- Continued restraint on aggregate effective demand via fiscal and monetary devices;
- Advance placement of orders on private firms by the public sector;
- Selective credit measures for reviving home demand for engineering products of high priority;
- Relaxation of controls on industry aimed at facilitating adjustments in production in the light of the market situation; and
- Renewed emphasis on export promotion as a means of off-setting the slack in domestic sales of certain articles.

However, it was clear that the measures then implemented would be of no more than limited avail in securing a revival in economic activity or in the reversing of recessionary trends. For, the simple fact of the matter was that, without the aid of a successful monsoon, and without a good crop year, there could not be an improvement in such basic and mass purchasing power which, in turn, would be reflected in an increased demand for consumer goods; and it was only upon the emerg-

ence of such demand that one could expect a resurgence in economic activity whether measured, say, in a higher demand for coal or in an increase in the originating traffic carried by the railways. As such, it had been expected, in view of production of foodgrains improving to 95 million tonnes, that the Deputy Prime Minister would seek to build upon this happy circumstance by announcing specific measures intended to set the country again on the path to industrial growth. It appeared almost certain that, with a view to revivification of the capital market, the Deputy Prime Minister would include among his Budget proposals a reduction in the Reserve Bank Rate.

BANK RATE & INTEREST RATES

In the event, the Budget, about which I shall have more to say, did not contain a reference to the Bank Rate. But, two days later, the Reserve Bank announced a reduction in the Bank Rate from 6% to 5%. Simultaneously, it directed that the ceiling on the lending rate should be reduced from 10% to 9.5%. Moreover, a downward adjustment in interest rates on deposits was also implied, with the Reserve Bank directing that the rate of interest on savings deposits be brought down with immediate effect to 3.5% and that on deposits for one year to 5.5%. The question to be considered at present is whether this change marks the beginning of the reversal of the dear money policy which Government had been following over the last twelve years. I believe that we should not be in undue haste to answer that question in the affirmative. For the moment, what matters is that, with busy season expansion in the demand for credit rising more slowly than anticipated and in consequence of banks experiencing a relatively greater inflow of new deposits, conditions were propitious for Government to be able to use the monetary device for the timely encouragement of production and productive endeavours. Secondly, it may also be argued that reduction in the Bank Rate will help achieve two main desiderata of Government: increase in agricultural production and productivity on the farm will be aided by a lower cost of bank credit. Equally, the export effort can be expected to derive encouragement from availability of cheaper banking services and finance; the Reserve Bank has directed that bank finance for exports should be made available at concessional rate of 6%. I may add that the Deputy Prime Minister has indicated in his Budget speech that banks will be assisted by a suitable subsidy scheme on such financing of exports, a scheme which is being evolved by the Reserve Bank.

If the highlight in Mr. P. C. Bhattacharyya's tenure as Governor of the Reserve Bank of India came midway, Mr. L. K. Jha, his successor, found early opportunity for changes consistent with the state of the economy. His years with the Finance Ministry would have conditioned him for the assumption of certain grave responsibilities at a time when monetary devices were essential to get the country's economy moving again. This background, however, needed to be filled in by consultations and discussions with bankers—a method which he has adopted with consummate skill to apprise himself of the emerging developments and problems. With Mr. Jha as Governor of the Reserve Bank we can expect a realistic approach in the guiding of the Banking Laws (Amendment) Bill. He would have a keener awareness of the problems of the banking system as well as a better appreciation of the impracticability or otherwise of particular aspects of the bill. Even so, with Mr. Jha as Vice-Chairman of the National Credit Council, we may expect that the link as between the Council and the banking system will be utilised with optimum efficiency.

BUDGET PROPOSALS

While reduction in the Bank Rate can be expected to vitalise the Stock Exchanges and therefore, in turn, make

possible the revival of the capital market, I should like to emphasise that Mr. Morarji Desai's Budget for 1968-69 has been admirably framed so as to make possible a consolidation of gains that can be expected to result from a record food-grains and agricultural production. Thus, while he has not found it possible to extend an array of reliefs or offer a range of incentives, Mr. Desai has nevertheless succeeded in giving symbolic recognition to the need for such reliefs and incentives. The abolition of the dividend tax, the reduction in the rate of the surtax from 35% to 25%, the extension of the tax free nature of dividend income up to the first Rs. 500 of such income, the removal from the statute books of the Annuity Deposits Scheme and the scrapping of the discrimination as between earned and unearned incomes should all act as a psychological spur to an increased interest in Stock Exchange activity and in new issues on the capital market. The choice of commodities which are newly excisable or on which the rates of duty have been raised also shows a nicety of judgement in that, whether for individuals drawn from the lower or middle economic strata, the levies are applicable to luxury and semi-luxury items rather than to consumer necessities. Lastly, I would welcome the restraint that Mr Desai has shown in restricting his new tax effort to Rs. 66 crores in the face of an overall deficit of Rs. 315 crores.

FOUR CONSIDERATIONS

I believe, however, that the overall deficit will prove, at the end of the year, to have been overestimated. I base this belief on four considerations: firstly, while remarking on the rather large overall deficit during 1967-68, Mr. Desai offered as explanation, amongst other reasons, the fact that Government, to some extent, was "misled in undue optimism by the oft repeated charge of underestimation of resources." The clear implication is that his Budget estimates for 1968-69 do not suffer from any such optimism but would tend to be even more conservative than they might otherwise have been. On this score, therefore, some reduction in the overall deficit can be assumed, whether arising from revenues proving to be higher than estimated or expenditure ending up lower than now projected. Secondly, Mr. Desai expects that industrial production will rise by 5% to 6% during 1968-69. Almost certainly, this implies that industry can look forward to more profitable working, which in turn holds out the prospect of larger tax revenues for Government. Thirdly, Mr. Desai has made the point that budgetary resources during 1967-68 were adversely affected by a relatively slow rate of foreign aid utilisation because of the recession in industrial production. The implication, again, is that, with a rise in industrial production, the rate of utilisation of foreign aid will improve, thereby contributing to an increase in Government's budgetary resources. Lastly, the Budget takes credit for only Rs. 56 crores net from market borrowings as against Rs. 93 crores net secured in 1967-68. Certainly, the current monetary situation, as explicitly given recognition to by reduction in the Bank Rate, augurs for such target being revised upwards, as and when Government makes its borrowing effort.

In the wake of the third general election held last year, with Congress failing to emerge with a majority in certain of the State Assemblies, coalition governments of non-Congress parties were formed. I think it possible that it was this change in the political complexion of the country—mirrored in the formation of governments in some states by parties belonging to all the different shades of the political spectrum—which might have been responsible for the Government at the centre adopting as its own policies and attitudes which it might otherwise have eschewed. It was in such a situation that the debate over nationalisation of banks and general insurance reached a high pitch. That Government ultimately was in a position to take a conservative decision as to the

manner in which it would assume greater authority over banking and general insurance has to be both welcomed and commended. I would like at this stage to elucidate upon what social control over the banking system is intended to secure, as well as what it should seek to achieve. But, before I do so, I may set down recent developments in this regard.

CHANGE IN BANKING LAWS

According to the statement of objects and reasons, the two-fold motivation for the Banking Laws (Amendment) Bill 1967 is, firstly, to align fully the working of the banking system with the general policy of economic growth and planned development and, secondly, to allocate credit equitably and purposefully so that the priority sectors receive their due share and particular clients or groups of clients are not favoured in the matter of distribution of credit. In terms of what social control is to secure, the Bill spells out for the first time a definition of banking policy: "Banking Policy means any policy which is specified from time to time by the Reserve Bank in the interests of monetary stability or sound economic growth, having regard to the volume of deposits and other resources of banks, and the need for the equitable allocation and efficient use of these deposits and resources." This explicit definition of banking policy will, I trust, make for easy communicability as between the central banking institution and the banking system.

RECONSTITUTION OF BOARDS

In order that the Boards of Directors of banks are made broad-based, the Bill also specifically calls for such reconstitution of individual boards as would ensure that a whole-time Chairman is at the helm of affairs and so that not less than 51% of its members will have specialised knowledge in or practical experience of accountancy, agriculture and rural economy, banking, co-operation, economics, finance, law, small-scale industry and any other matter the knowledge and experience in which would, in the opinion of the Reserve Bank, be useful to the banking company.

There remain, in respect of the Bill, two more provisions for us to take note of. On the one hand, to answer the criticism that, in the past, banks had accorded favoured treatment to their Directors, the bill specifically provides that no new loans should be extended to Directors or companies or firms in which they are interested and that loans at present outstanding to such directors or companies or firms are to be liquidated within a period of three years. Secondly, contravention of particular sections of the Bill, especially those relating to the achievement by the banking system of the objective of the flow of credit to priority sectors, will make individual banks liable to being acquired by the Central Government. It may be noted that, in addition to contravention of the provisions of the Bill as grounds for such acquisition, additional reasons for such take over could be if it is in the interests of the depositors of a banking company, or in the interests of banking policy or for the better provision of credit generally or of credit to any particular section of the community or in any particular area. In the event of such acquisition, it has been expressly provided that compensation will be paid in the manner laid down.

NATIONAL CREDIT COUNCIL

Soon after the Bill was introduced, a brief four days later, Government of India, in pursuance of its intention to channel resources into certain priority sectors which in its view, had been relatively neglected in the past, announced the establishment of the National Credit Council with the Finance Minister as Chairman and the Governor of the Reserve Bank as Vice

Chairman. The resolution noted the main functions of the council as being:

- (a) to assess the demand for bank credit for the various sectors of the economy;
- (b) to determine priorities for the grant of loans and advances or for investment, having regard to the availability of resources and requirements of the priority sectors, in particular agriculture, small-scale industries and exports;
- (c) to co-ordinate lending and investment policies as between commercial and co-operative banks and specialised agencies to ensure the optimum and efficient use of the overall resources; and
- (d) to consider other allied issues as may be referred to it by the Chairman or the Vice-Chairman.

In its primary assessment of lacunae in the flow of bank credit, Government had come to the finding that "several sectors such as agriculture, small-scale industry and exports, whose importance is considerable from the point of view of their contribution to national income generation, provision of employment opportunities, decentralisation of economic power and earning of foreign exchange, have not obtained access to credit to the extent needed owing to the overall shortage of bank resources."

These, then, are the foundations upon which the edifice of social control is to be built: a re-organisation of Boards whereunder the responsibility for management would be vested in a whole-time Chairman with banking experience, assisted by Directors who have specialised knowledge of one kind or another useful in banking operations; the establishment of the National Credit Council with responsibility for determining from time to time the sectors in which and the extent to which bank credit should flow; and a primary indication of what three such priority sectors are.

SOCIAL RESPONSIBILITY OF BANKS

So much for what Government has done. We are to infer that one of the basic tenets of the Banking Laws (Amendment) Bill, 1967, is that the banking system should lay greater emphasis on three sectors of economic activity which, in the opinion of the Government, deserve a greater degree of assistance. Let us be clear in our minds, at the very outset, that the banking system will continue to be called upon in the main to provide a sufficiency of working capital such that the industrial apparatus of the country is enabled to produce at maximum efficiency and to optimum capacity. At the same time, however, I would suggest that the time has come when banks have to recognise their social responsibility in providing assistance to new and smaller entrepreneurs as the consumers of large and basic industrial production; to such of our businessmen and manufacturers who display a pioneering zeal in the discovery of outmarkets for new products; and to agriculturists who, leaving behind the tradition of centuries, are venturing forth with the use of new and modern agricultural machinery, new seeds and inputs of fertilisers. It would thus appear that the banking system will need to superimpose on its normal activity of yester-years a fresh, concentrated and considerable attention upon the emerging requirements of the three priority sectors I have just named.

UCOBANK AS PIONEER

It will not be out of place for me to mention that, in its flow of credit, Ucobank had already in the past directed its

assistance to the three priority sectors that Government has recently indicated as having been neglected. For example, amongst the Indian banks, Ucobank pioneered the financing of India's foreign trade, and it can be confidently expected to give a lead in the provision of the special kinds of assistance by means of which the country's export effort can be vigorously pressed forward. As for agricultural finance, Ucobank has long been identified in the financing of sugarcane cultivation and seed farms, of tea and coffee plantations, and by extending credits to Government for the procurement effort as well. Thirdly in this regard, I may point out that many a small industry which we had aided in the past has now, with years of growth, taken on the dimensions of medium or large-scale industry. Furthermore, even by the technical definition as much as 6 per cent of the total credit at present extended by Ucobank goes to small-scale industry.

AGRICULTURAL FINANCE

Soon after the Government made known its concern for an adequate line of bank finance as a means whereby production and productivity on the farm would improve, under the aegis of the Indian Banks' Association and with the approval of the Reserve Bank, the Agricultural Finance Corporation was formed by the banks with an authorised capital of Rs 100 crores. Though it would have the resources to engage directly in the provision of finance to agriculturists, it is clear that the work done by the Corporation must be supplemented by individual banks which, with their network of branches some of them rural, would be in a better position to assess the creditworthiness of would-be borrowers, appreciate the kind of assistance sought, and extend the appropriate kind of bank facility at the appropriate time.

PROBLEMS OF FARM FINANCING

At this stage, however, I have to point out that the very question of a significant contribution to and participation in agricultural finance by the banking system requires as pre-condition a revision in certain policies, a change in certain enactments and, in Government circles, a sympathetic understanding of the problems that banks would be confronted with. For example, it is obvious that a branch operating in a small town or village with a population of less than 10,000 should not be burdened by too high an operating cost; also, it is with regard to the convenience of the agriculturists that hours of work have to be framed and, indeed, the standards of work and working conditions applicable to the cities and larger towns will obviously be incapable of being applied to such smaller branches. There is, also, the question of remittance facilities from and to such branches, as well as considerations of safety. It seems to me, therefore, that relevant and appropriate provisions of the Bank Award and the Shops and Establishments Act should not apply to all bank branches in towns and villages with a population of less than 10,000. In this context, I would also add that the Managers and personnel for such branches will need to be specially trained so as to equip them for the new and specialised techniques that would be required for extending timely bank credit, whether for pesticides or fertilisers, smaller implements or tractors. It is only by so doing that there can be a growing identification of such bank personnel with the aims and aspirations, the difficulties and problems of particular villages and areas. The conditions would then be created for banks to intensify branch expansion programmes for the rural sector in such a manner as would facilitate increasing bank assistance to the farmer, whether big or small.

One more problem that banks will face in this regard is that, in the villages, more often than not the farmer does not have the documents of title to his land. It thus becomes

difficult for a bank to extend assistance to the large farmer since the size of the loan or advance will, as dictated by banking prudence, require to be sufficiently and adequately secured. I commend the scheme that has been formulated by the Rajasthan Government in terms of which individual farmers are to be given a kind of passbook which gives clear and unambiguous particulars as regards the land of the holder of the pass book. Moreover, loans to agriculturists are also inhibited by the considerable differences that exist in our land tenancy laws as between one state and another. Since it will be almost impossible for bank personnel in the various states to apprise themselves of all such differences in the laws, it seems to me that the Central Government should take steps to ensure that there is uniformity in such laws, such action being undertaken with a view to the achievement of its own objective, higher production from the farm.

"THE BEST SECURITY"

My own feeling is that, especially for small loans, the farmer himself is the best security that a bank can rely upon. The farmer who knows the job and applies himself to it, who is receptive to new ideas and is willing to apply modern methods, who knows that his capital is reasonably proportionate to the amount he wishes to borrow and whose land is capable of being farmed successfully—it is he who is capable of raising the standard of Indian agriculture and the one to whom banks should render their assistance. I would take an encouraging view of any farmer of ability who makes his way and is capable of showing that, with apt bank assistance, there is every possibility of his venture being a success.

It would appear that, in the context of the generally difficult budgetary position of State Governments, an attempt is being made by individual states to shift the financial responsibility for rural electrification on to the farmer and, indirectly, on to the banking system itself. I wish to emphasize that it should not be the function of the banking system to prop up the budgetary resources of State Governments or State Electricity Boards which, for one reason or another, find themselves unable to carry out their responsibility in this sphere. Once electricity reaches the village or small town it may fall within the ambit of proper banking operations to finance the cost of linking up individual farms so that, with the use of electric power, water can be raised for adding to production and improve productivity.

CO-OPERATIVES

The contribution of co-operatives in aiding progress in agriculture, is, I venture to suggest undeniable. When a few months ago, the notion that banks should increasingly engage in agricultural finance was mooted, it appeared to some to be a facile solution for the difficulties being experienced by co-operatives in the matter of resources to suggest that bank finance should be channelled, at least in part, through the co-operative movement. In view of the directions in which banks are likely to move in their schemes of assistance for agriculture, the resources that may be left with them would scarcely allow them to extend credit directly to the co-operatives. The limited extent of participation may be to extend loans, wherever possible, in association with co-operative banks. What is more, to the extent that banks engage in agricultural finance, it should also happen that the pressure on the co-operatives would be relaxed. It is also relevant to point out that, as in the matter of assistance so in the matter of security, banks should be held on a par with the co-operatives. Such, then, is the medium rather than short view that I take of the ways in which the banking system can implement one of the desi-

derata of social control—help increase in agricultural production.

NO PAST NEGLECT

But I digress. The Government's decision to introduce social control over the banking system has been motivated by the impression it has that there have been sectors in the Indian economy which have been relatively neglected by the banking system; and the implication also is that banks have concentrated upon extending finance to large-scale industry. While I laud Government's objectives, I venture to say that the Government's doubts about past neglect on the part of the banking system are *not* totally justified. Was it really necessary, in the past years, for the banks to undertake a special role in the financing of exports? Would it not be true to say that it has only been in recent months that a kind of surplus has been created in the non-traditional items of goods which could be exported? And would it not follow that it would have been premature for banks to assume such responsibility in an earlier decade or era? But now that the exportable surplus is available, it is certainly the duty of banks to furnish all necessary assistance which, I might emphasize, the banks extended to industry—big and small—in an ample measure precisely at the time when industry stood in need of such help.

WHAT SOCIAL CONTROL MEANS

Even so, I believe that it is only with the ending of shortages in the indigenous availability of basic industrial raw materials that we could expect any kind of sustained effort by the new entrepreneur or the small industrialist in the establishment of new capacities, in the commissioning of new plants, and in an addition to the nation's output of goods. All this calls for diversification in the range of banks' activities which entails, to my mind, the recruitment and proper functioning of processing departments. But all this is very much by the way. For, there is no basic difference between what, in Government's view, social control is intended to secure and what, in the banker's view, it should seek to achieve. Banking operations have increasingly to concern themselves with the provision of appropriate facilities for the maximisation of new lines in export manufactures; bankers need to have increasing concern for such services as would enable all due encouragement being given to a new breed of small industrialists who thereby would be optimum consumers of our basic industrial raw materials; and organized banking must, consistent with the introduction of more modern techniques in farming, ensure that the special kinds of agricultural finance are so made available that agricultural production goes up in this country, not just because of the extension of acreage, but as a result of an improvement in yields. I repeat, therefore, the simple import of social control over banking can be and is no more than that the resources mobilised by the banking system are employed in furthering production, whether in industry or in agriculture, and fostering exports, whether of the traditional items or of new manufactures.

TURN OF THE TIDE

What of the future? The new Budget proposals as well as the reduction in the Bank Rate, are directed at giving a psychological boost to the economy; it is possible to interpret these moves as indicative of confidence on the part of the Deputy Prime Minister that we are in sight of the end of recession in demand. It is to be recognised that the measures implemented in the recent past by Government cannot by themselves induce new demand. Before we proceed to see from where we can expect the emergence of increased demand for goods and services it will be well that we take note of

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the probable causes of the recession that we have been experiencing for some time.

Almost certainly, the heavy expenditure on defence since the Chinese aggression upon this country in the autumn of 1962, coupled as it was with a certain stagnancy in Government's budgetary resources, was responsible for preventing Government from proceeding with new investment on the scale that characterised plan disbursements during the Second and Third plans. This setback or stagnation in investment activity in turn was reflected in lower demand for goods from industries which, in anticipation, had already increased their capacities. This recession in demand was compounded by two cities. years of drought which effectively reduced mass purchasing power and therefore caused a reduction in the demand for consumer goods; what to the rural inhabitant of this country was a luxury a decade ago has since become a necessity; but the curtailment in his own purchasing power prevented him from purchases in any significant size during this period. Now that we have had a good agricultural year, we can expect a resumption in the upward curve of demand from the agricultural sector as from, perhaps, the middle of this year. Besides, with the new inputs in agriculture, not excluding the fact of a greater area brought under high-yielding varieties even a partial failure of the monsoon cannot reduce foodgrain crops in the future to below the 90 million tonne mark. As such, it would not be unreasonable to assume that a continuing mass purchasing power has in this wise been assured. The consequent greater demand for goods will call for the creation of new capacity and therefore new investment. This, in turn,

will lead to greater demand for basic industrial raw materials which, today, are experiencing the worst of the current crisis in the recession in demand.

THE CHALLENGE

Hence the upturn in industrial activity is possibly to be expected towards the end of the year or so. I would suggest that, in anticipation, it is up to the private sector to be ready with schemes for increase in capacities in precisely those areas where production to current capacities will be unable to satisfy demand. Secondly, Government, for its part, should also be ready with apposite schemes of reliefs and incentives to ensure that the capital market is fully responsive to the needs of the emerging demand on it at that time.

In this process of economic regeneration of this country, I am confident that the banking system will not be found wanting. On the contrary, especially in the past few months, banks have been conditioning themselves for taking on the tasks of financing production, in industry as in agriculture, for home consumption as for exports, so that this country, leaving behind it a short period of recession, is once more on the road of steady and planned growth such that, in a matter of a few years, our economy will have reached the take-off stage.

CALCUTTA,

9th March, 1968.

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NATIONAL AND GRINDLAYS BANK LIMITED

Extracts from the Statement by the Chairman,

The Rt. Hon. Lord Aldington, P.C., K.C.M.G., C.B.E., D.S.O.

Relating to the Accounts to be submitted to the Annual General Meeting to be held on the twenty-third day of April, Nineteen hundred and sixty-eight.

The consolidated net profit at £1,390,000 shows a welcome improvement on the previous year and has been reached in accordance with our usual practice and after deducting from the total business profit, taxation, depreciation for premises, pension fund contributions, provision for bad debts, share of profits due to minority interests, and an appropriate transfer to inner reserves.

I can best summarise the performance of the year as follows. First in the high taxation countries: in India a good result in line with the expansion of deposits at branches; Pakistan a less good year for us; in Ceylon satisfactory results in prevailing circumstances; of the other overseas countries the profits of Kenya were lower than in 1966 principally because of the loss of the Central Government's accounts, but also because of the cost of fast expansion; in Uganda profitability recovered in the second part of the year but the business there was also expanding and new branches are not always immediately profitable; in Zambia the growth of business and profits continues; in Rhodesia there is no change; in Aden results were satisfactory in all the circumstances. In London our business is growing and widening and the profits of the Bank's business in London taken separately from subsidiaries show an increase of over 25% on the previous year. But in considering the year's profits it is misleading to omit the subsidiaries and associated companies in which we have invested something over £4½ million in the last three years. 1967 saw a substantial improvement in earnings from this large investment to an amount already giving a return of over 10% and showing promise of an appropriate further increase.

The table I set out below shows you the distribution in the three years 1965, 1966 and 1967 of our net profits after tax as between our branches in Asia, our branches in Africa, and our business in London including the profits of subsidiaries.

Percentage of net profits after tax earned in:—			
	1965	1966	1967
Asia	53%	39%	30%
Africa	12%	17%	11%
London including subsidiaries	35%	44%	59%
	100%	100%	100%

Taking the 1967 earnings of the Bank by itself, exchange business continued to improve despite the switch in the pattern of trade from our territories, and despite the fall in important commodity prices; net interest earnings were higher than in 1966 but not so high as in 1965, because of the increased cost of interbank money and refinance in most countries, and because savings bank deposits that earn interest,

welcome though they are, form a higher proportion of our total deposits. If earnings have grown, so have our expenses; Staff costs rise inexorably, but a well trained and loyal Staff in many places is showing that increased output per man can contain these higher costs.

TERRITORIAL FACTORS

I am enclosing with my Statement this year a rather more comprehensive survey of the principal factors affecting our business in each of the territories in which we operate.

We remain bankers to the Government of the peoples' Republic of Southern Yemen and the leading bankers in that part of the world. As a result of the fighting and of the absence of effective Government in the hinterland for an important part of 1967, the cotton crop for 1968 will be small and developments have not gone ahead. The activity of the Port is greatly reduced whilst the Suez Canal is closed. But imports for the Peoples' Republic of Southern Yemen and Yemen to the north of it have revived and business in Aden is certainly not at a standstill. We watch with interest the developments of the policy of the new Government.

I find it difficult to express in words my admiration for Officers and for our Staff of Asians and Adenis who continued business during the months of shooting, grenade throwing, ambushing and mining. In a very short visit which I paid to Aden in July, 1967, I saw at first hand how well our country is served in times of crisis overseas, not only by members of the Armed Forces whose magnificent conduct has been so rightly and so well praised, but also by civilians serving there in Government and in private business. All the British banks continued to serve the public and we may be proud that National and Grindlays Bank fulfilled its obligations to Government and public day by day.

BUSINESS REPORT AND POLICY CONSIDERATIONS

In 1967 we opened 53 new offices, 28 of which were in Kenya, 17 in Uganda, 4 in India and 4 in Zambia. We now have a total of 139 branches and 84 sub-branches overseas. The principal aim of this expansion in the number of offices is to increase the funds we have available for lending in each of these territories. In all developing countries the demand for overdrafts and loans for sound and worthwhile projects is growing year by year. Even in the large port cities of India where there is a highly sophisticated banking system, the opening of a new branch brings forward after a few months a quite substantial addition to bank deposits. The extension of banks to parts of East Africa where they have not been before has produced an important increase in funds available for bank lending. In so far as the majority of these funds may be on Savings Bank account, the cost of acquiring these additional funds is greater than is usual in Britain, and lending rates have to cover this additional cost, but there is no doubt that a rapid extension of banking facilities as has been seen in East Africa in the last two or three years

is very much in the interests of each of these countries—and will lead to greater strength in earning power of this Bank.

As we expand our branch network and extend our services, and as particular countries develop their economies, it seems wise to call on the advice of distinguished men in those countries to assist our territorial managers there. With this in mind we are establishing Advisory Boards in India and Pakistan and Advisory Committees in Kenya and Uganda. I want to express to you my pleasure and gratitude to those who have agreed to join us in this way, and particularly to Mr G. R. Kamat who has honoured us by agreeing to be Chairman of our Indian Advisory Board and to Mr Ishaat Habibullah the Chairman of our Pakistan Advisory Board.

INDIA

In line with the general trend, our own deposits rose at a much slower rate in 1967 than in the previous year (by Rs 10.5 crores as against Rs. 17.4 crores). We continued to improve and extend our network, however, and four new offices were opened against applications made and approved in 1966. During 1967 further applications were made for permission to open 14 new branches, of which three have been refused while the remainder are still receiving consideration. The Delhi Lloyds sub-branch has been closed, and the licence transferred to a new sub-branch which has been opened in the Diplomatic Enclave in New Delhi.

Having made successful arrangements to take in deposits for periods of 3 years and more, the Bank has recently drawn up a scheme for providing medium and long term finance to industry, and as a further step towards providing new services we have increased our underwriting business; steps are being taken to set up a new department in the Bank's principal branches in India to provide financial advice to corporate customers and to arrange new issues.

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 features are a business roundup, an analysis of markets and an investment supplement.

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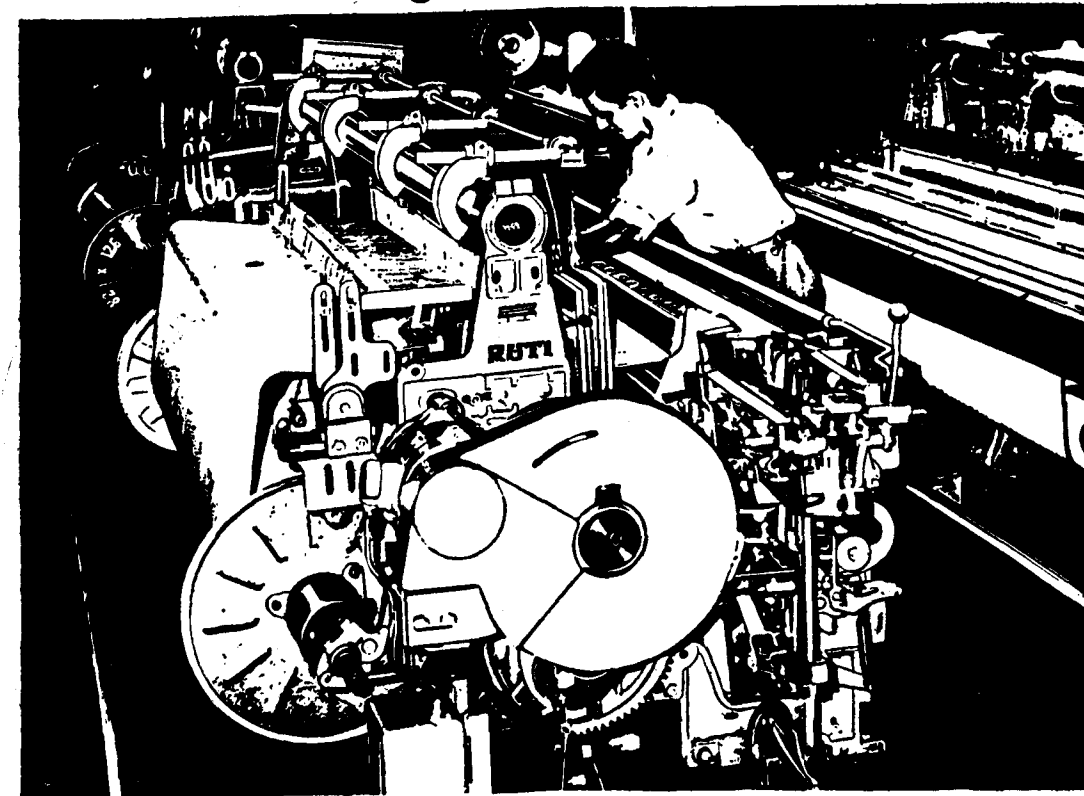
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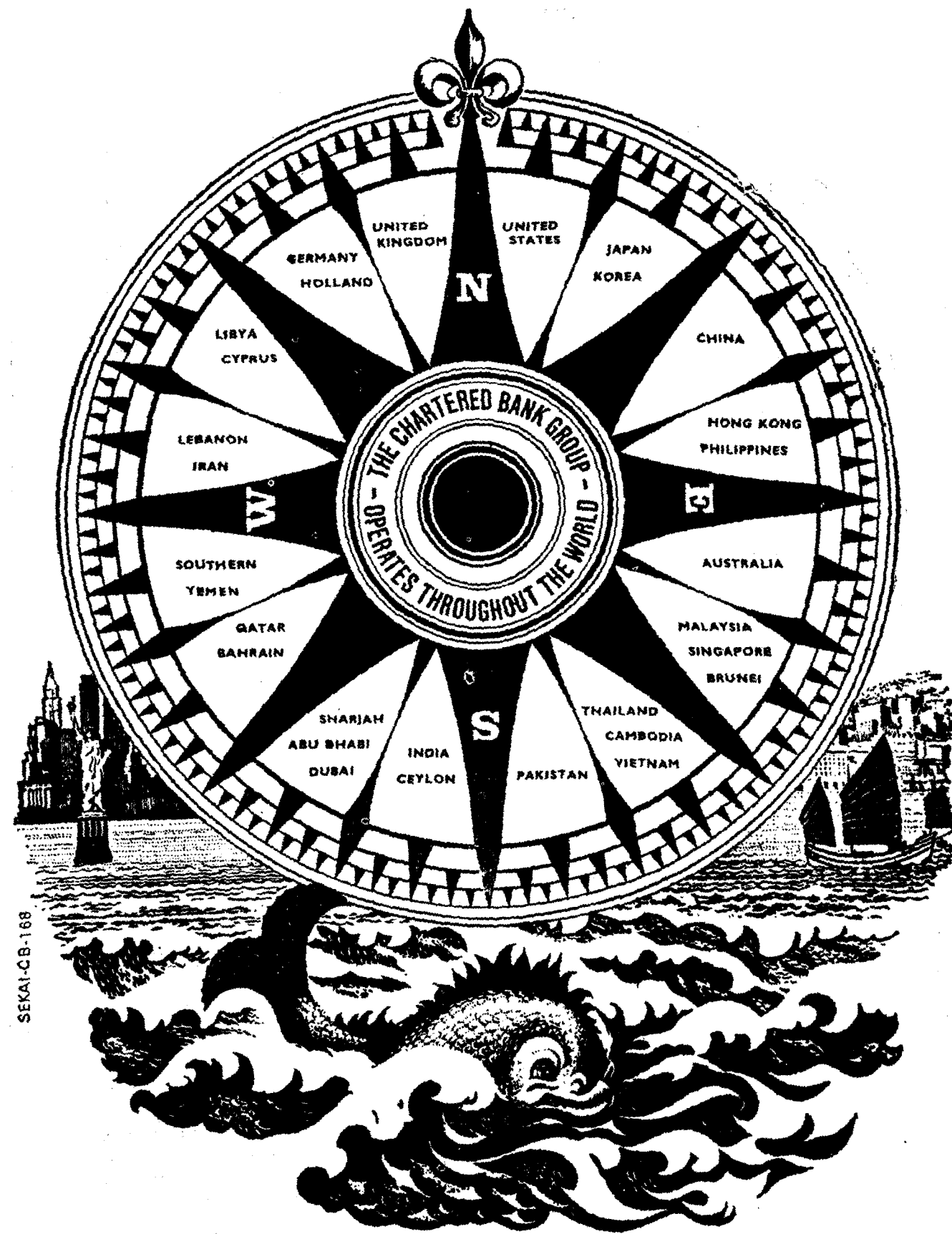
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The Chartered Bank Group

THE CHARTERED BANK GROUP

Chairman Mr W.G. Pullen's Statement

The following are extracts from the Statement by the Chairman, Mr W. G. Pullen, to be presented at the Annual General Meeting of the Chartered Bank on 3rd April 1968 at 38, Bishopsgate, London, E.C. 2.

For British overseas banks like ourselves the devaluation of sterling overshadowed all other events during the year and although the outcome of devaluation was predictable in terms of non-sterling currencies it was impossible to anticipate the effects of this unhappy step within the sterling area. Some countries followed the pound, others retained their parity in terms of gold whilst others took intermediate steps considered appropriate for their economic circumstances.

The repercussion of sudden and significant changes in currency parities for banks operating in international trade in very large figures as we do could be very serious, and I am pleased to say that although some settlements are still outstanding any losses made in the Group were to a considerable extent offset by exchange profits in other areas. It is early yet to say what the impact of devaluation will be on our future business, or even the extent to which it has caused resentment in countries which have suffered losses on their sterling balances, but in view of the extent to which we operate in non-sterling countries, and in countries which have not devalued, we see no reason to be pessimistic about future profits.

Apart from the problems caused by devaluation the Group through the year pursued its policy of steady expansion and, in addition to opening further branches in existing operational areas, we obtained permission to start our operations in South Korea, where we shall be the only British, in fact the only European bank. A change for the better in the political scene in Indonesia also enabled us to make progress there and we have reached a satisfactory settlement with the Indonesian authorities regarding our erstwhile business and have received permission to open a branch in Djakarta as soon as the new banking legislation there becomes clarified.

ALLAHABAD BANK LIMITED

A further six branches were opened in 1967 bringing the total to 119, and permission is being sought for further expansion. It will be some time however before the deposit growth from the branches opened in the last two years begins to be felt in the bank's business. In the meanwhile our subsidiary, like all India banks, has, particularly in the second half of the year, suffered from the dual squeeze on profits brought by the general trade recession and by rising internal costs.

To accord with the proposed legislation covering the social control of commercial banks, Mr. K. M. Nanjappa was appointed Managing Director and Chairman of the Board of Directors in succession to Mr. S. P. Puri, who has since retired but continues as a director of the bank.

PROFITS AND DIVIDENDS

After making the usual provisions and deducting minority interests in subsidiaries, the consolidated net profit for the year is £2,127,379 an increase of £240,722 on the previous year, a result which must be considered to be very satisfactory in view of the difficult conditions experienced in many of the areas in which we operate.

With the balance of profit brought forward from last year of £678,619 the amount available for distribution is £2,805,998 out of which £547,934 has been transferred to Reserve Funds and £130,000 to Reserves and Contingencies. The interim dividend of 7½% paid in September 1967 absorbed £635,250 and it is now proposed to pay a final dividend of 7½% making

15% for the year. The balance to be carried forward to next year will be £857,564.

OVERSEAS SURVEY

Twelve months ago this survey of the territories in which The Chartered Bank Group operates was written against a background of the war in Vietnam and the decline of India as a stabilising influence in Asia. At the end of 1967 the war continues with even wider repercussions and India shows no signs of returning strength. Additionally we have had the disturbing political and economic aftermath of the war in the Middle East, the devaluation of sterling and the unsettling announcement of the earlier withdrawal of the British military presence from Singapore and the Gulf. During the year too the primary producing countries again suffered from low world prices for their exports and from having to pay higher prices for the manufactured goods they import; and aid, even if forthcoming in sufficient quantity, cannot replace what these countries consider loss through unfair terms of trade.

Thus world trade in 1968, instead of increasing by seven per cent as estimated after the Kennedy Round tariff agreement may even show a diminution on the not very satisfactory figures for 1967, and once again the major sufferers may be the developing countries. That this position is fully realised is borne out by the proposition at the second United Nations conference on trade and development at New Delhi that there should be a ten year cut in the tariffs of the major industrial nations on manufactured and semi-manufactured products from the developing countries. It is important that this and similar encouraging action be taken to assist those governments which are genuinely trying to build up their economies and raise the standard of living of their people.

CONCLUSION

The countries reviewed in the full text have generally very little in common and if there be a pattern at all it is to the extent that those territories with liberal governments encouraging private enterprise are the most successful economically and politically. It is pleasing in this context to see statesmen and officials of the more recently independent countries taking an increasingly mature and important role in the international scene and in domestic affairs. The earlier nationalistic instinct to achieve what was termed economic independence has to a considerable extent been replaced by a realisation that foreign investment and expert knowledge can materially assist a country's growth and even make the difference between progress and the reverse.

One of the greatest boons to these countries since the early years of their independence has been the stability brought to them by a sound banking system based on the branch network of the overseas banks. Although local banks are rapidly building up to play an ever increasingly important role in the economic life of their country the overseas banks with their worldwide spread and knowledge of trade, still have a very important part in the handling and developing of trade. They are too concentrating more and more on helping local industry and financing joint ventures and, in view of the more international outlook I have mentioned it is to be hoped that greater acceptance of the economic value of the operations of the overseas banks will enable banks like ourselves to work freely and fully for many years to come in the interests of the countries in which we operate.

E.I.D.-PARRY LIMITED

Address by Mr H.V.R. Iengar, Chairman, to Shareholders

SEVENTIETH ANNUAL GENERAL MEETING TO BE HELD ON
27th MARCH, 1968

The following statement has been circulated to Shareholders of E.I.D.-Parry Limited by the Chairman, Mr H. V. R. Iengar.

I am sure that shareholders will take the view, from the Accounts and the Directors' Report which have been circulated to them, that the operating results of the Group for the year under report have been highly satisfactory. The net profit before taxation for the year 1967 has been the highest in the history of the Group, being almost 60 per cent over that of 1965 which was, in itself, a record. Lest this sound somewhat arrogant and insensitive during a period of general gloom, I would like to give a broad picture of the background against which this result was achieved.

The view has been generally expressed that the industrial economy of India passed through a period of recession during 1966 and 1967. Undoubtedly the economy was bedevilled by severe stresses and strains. The sensitive points were the rapidly mounting inflation since the Chinese attack on our frontiers in 1962 and the consequent large scale increase in defence expenditure, the aggravation of the price level by a serious fall in agricultural production, the deterioration in the balance of payments, and the virtual collapse of the domestic capital market as a result of the fiscal and monetary policies of Government. For structural reasons the impact of these stresses fell with exceptional severity on the engineering industry. A considerable proportion of manufacturing capacity in that industry has been idle, leading to great human distress as well as loss to shareholders and the economy in general. The chain effect of all this has been considerable too. Nevertheless it has to be noted that the effect on the economy as a whole has been, first, to slow down, and in 1967 to grind to a halt, the rate of increase in capital formation in Indian industry. While sectorally the recession was severe, the total economy went through a period of what may broadly be called a pause in progress rather than a recession. Several sectors actually did quite well during 1967; and one of them was the sector dealing with inputs to the agricultural economy. The Parry Group was thus only one of several companies which did well during the year; its experience was by no means unique.

Some years ago the management of the Group gave thought to the pattern of its future activities. The Group had a certain amount of manufacturing interests—principally sugar, superphosphates and fertiliser mixtures, and a small quantity of ceramics, but its major activities were merchandising. The management took the view that the future lay in the manufacture of complex fertiliser and its distribution. This was a major decision of policy, and events have shown that it was a wise decision. In the history of companies as well as of individuals there comes a time when a new direction has to be taken—a new line of activity. The results of the year 1967 are a direct consequence of a farsighted decision taken some seven years ago.

The distribution of fertilisers involves special skills which require time to acquire. It is fortunate for the Group that Parry's have had long years of experience in this line, and the large scale developments in recent years in both manufacture and distribution have been a logical corollary of the past. Likewise it is a logical corollary that we are now considering schemes for the increase of our activities in the field of pesticides, including basic manufacture, and the commercial multiplication of hybrid seed; and we are also

examining the possibility of production and distribution of cattlefeed and the ploughing of land through tractors owned by us.

2. GROUP RESULTS:

There has been a significant rise in turnover as well as in profits. For reasons which I explained at length last year, I am basing my remarks on the results as expressed in Rupees and not in Sterling figures, although it is these latter which have to be included in the statutory accounts. The complication in our Accounts resulting from the devaluation of the Indian Rupee continues despite the fact that the transactions on the Profit and Loss Account for the year under consideration have uniformly been converted at the post-rupee devaluation rate of exchange of £1=Rs. 21. The sterling figures of profit derived thereby, if compared with the sterling figures of profit for the previous year will not truly reflect the extent of the increase in profits for the reason that in arriving at the profit figures for 1966 an average of the pre-devaluation and post-devaluation rates of exchange was adopted. Whilst the increase in Group profit before tax over the two years in the sterling statutory accounts is £1,96,367 only, the rupee profit before tax has, in fact, gone up by as much as Rs. 76.81 lakhs. I may add here that one of the consequences of the devaluation of Pound Sterling on the 20th November 1967, although it has not affected the results of the year under review, is that we will necessarily have to adopt two different rates of exchange for arriving at the Sterling figures for the year 1968, thus rendering a comparison of the two sets of figures even more difficult. I would, therefore, request shareholders to look at the Rupee figures only, to obtain a correct picture of the secular trend of the working results of the Company.

The improved performance for the year was made possible by several factors. Firstly sugar results improved considerably owing to larger releases for sales, higher recovery and better prices. Secondly, the increase in the sales of fertiliser mixtures over last year yielded larger profits. Coupled with this was the very satisfactory performance this year of the Ennore fertiliser factory, and the consumer products and the chemical imports divisions. However, the interest charges and administration expenses registered substantial increases.

Your Directors have recommended the payment of a Final Dividend of 5.5 per cent on the Ordinary Share Capital of the Company, which will be payable at the revised Sterling Rupee rate of exchange, and will be equivalent to Rs. 31,09,154. Together with the interim dividend of Rs. 14,83,915 already paid, the total distribution for the year under consideration (Rs. 45,93,069) will exceed that of the previous by about Rs. 8 lakhs and represent 73 % of the total profits available for distribution. I am sure shareholders will agree that this recommendation is satisfactory. As these dividends are to be paid out of the profits of E.I.D.-Parry Limited only a small withdrawal from General Reserve becomes necessary, but this is more than compensated by the plough back into Reserves of a substantial part of the profits of Parry & Company Limited.

I would like to take this opportunity to pay a tribute to the managerial staff of this organisation for their sustained

effort without which the results achieved would not have been possible. I would also like to record my appreciation of the hard work put in by the clerical and subordinate staff in our offices. I am happy, in this connection, to note that in the matter of salaries, dearness allowance, and the like, an agreement was reached with the staff unions without recourse to an Industrial Tribunal that had been set up by Government. I only wish it were possible to include all factory labour in these tributes. But that is a separate story which I will mention a little later.

3. PRINCIPAL GROUP OPERATIONS:

(a) ENNORE FACTORY:

The Ennore factory manufactured during the year 42,468 tonnes of Ammonium Phosphate representing an increase of 62% and 12% over 1965/66 and 1964/65 respectively. The production achieved is 82% of the rated capacity of the plant. The installation of two new compressors was completed during the year and this is expected to contribute towards the achievement of the full rated capacity of the plant. The expansion of the factory continued throughout the period under review and production of Ammonium Sulphate has since commenced. We received during the year the balance amount of Rs. 18.24 lakhs in respect of our insurance claim relating to the breakdown of the machinery last year.

(b) FERTILISERS:

The position of raw materials, though not wholly satisfactory in the first part of the year, has considerably improved and they are currently in good supply. Sales of fertiliser mixtures increased by 25% and substantial improvements were also recorded in the production of Superphosphate. Overall, the market is changing from a seller's to a buyer's market.

The Coromandel Fertilisers Factory at Visakhapatnam continued under construction and has also since been completed and commenced production. The Seeding programme was conducted throughout the year and sales were restricted only by the scale of imports.

The Company has been invited to participate, along with two other agencies, in the seeding programme for the factory to be put up just outside Madras City by the Madras Fertilisers Limited. Imports under this programme commenced in the latter part of the year and the portion allotted to us was marketed satisfactorily.

The Chemicals Section business produced satisfactory results as we were able to obtain higher margins in respect of certain of the products.

The Insecticide and Fungicide business had another very satisfactory year with the scale of operations here also being limited only to the extent of the availability of technical material. We are actively pursuing the construction of a second formulation centre.

The Company's activities in the cultivation and marketing of high yielding varieties of seeds continued on a modest scale during the year. We have since prepared a large scale project covering a five year period and expect that the first stage will be in full operation by the end of 1968. It is also planned, during the current year, to broaden further the scale of the Company's agricultural activities in order to give better service to the farmer.

(c) SUGAR:

The 1966/67 season witnessed a rapid decline in the all-India sugar production owing to an unprecedented rise in the price of jaggery resulting in large scale diversion of sugarcane from the factory areas. From the record output of 35.5 lakh tonnes in 1965/66, production in the 1966/67 season fell to 21.8 lakh tonnes. With a carryover of 10 lakh tonnes

from 1965/66, the total quantity available was only 31.8 lakh tonnes of which 2 lakh tonnes were exported and 25 lakh tonnes released for internal consumption, leaving 5 lakh tonnes for carrying over into 1967/68. The estimated domestic consumption under controlled conditions is 30 lakh tonnes in a year. It could be as much as 35 lakh tonnes if there were no restrictions.

The ex-factory prices for sugar were fixed by the Centre, and distribution was in the hands of the State Governments throughout the year.

Since there were prospects of a further decline in production in 1967/68, the Government of India announced

- an increase in the minimum price of cane from Rs. 56.80 to Rs. 73.70 per tonne.
- that factories would be allowed to sell 40% of the production in the free market to enable them to pay from the extra realisation an additional price for cane to compete with jaggery, and
- a rebate of 50% of the excise duty on sugar on the production between 1st October 1967 and 30th September 1968 which was in excess of 80% of the production in the same period in 1966/67.

Production at the Nellikuppam factory during the year under review was only marginally lower at 36,000 tonnes. Timely rains and adequate irrigation contributed to a higher recovery from cane over the previous year.

A programme for the expansion of Nellikuppam factory's capacity to 2700/2800 tonnes cane per day is in hand and it is expected that this programme which will be completed by the 1970/71 season, will be financed from internal resources. When the expansion programme is complete it should be possible to crush approximately 6 lakh tonnes of cane in the season with an average production of about 50,000 tonnes of sugar.

As the Government of Madras desired that the factories in the State should hand over to Government all the free market sugar for distribution through their own nominees, it was agreed, after negotiations, to let Government take over the sugar at Rs. 350 per bag. The market price outside the State was higher at the time but, with subsequent releases of free market sugar the price has come down. This arrangement which originally lasted till February 1968 has been continued on the same terms for another 3 months.

The matter of the additional cane price for 1958/59 and 1959/60 has now been settled by the Government of India. The Company has been exempted from payment for 1958/59 and the amount ordered to be paid for 1959/60 is not unreasonable. A grower has, however, filed a Writ petition in the Madras High Court challenging the revision made by the Government. Orders are awaited in respect of the additional price to be paid for 1960/61 and 1961/62.

(d) CERAMICS:

Pottery working results for the year were a decided improvement on the three previous years notwithstanding that the Ceramic Industry is feeling the impact of the recession with reduced demand, idle capacity and surplus labour. In fact several units engaged on sanitaryware production have been badly hit. Our results could have been better but for a closure of one of the kilns in the early part of the year. Sales touched a new peak recording an increase of more than 16.5% over the previous year.

On the export front, although Parryware commanded the maximum business in some of the markets in South-East Asia, the profit returns were negligible and the future prospects for export are linked with incentives which the Government

of India are presently examining. Our technical collaboration with Royal Doultons in UK was effectively utilised during the year and production at the factory showed significant improvement.

(e) **TRADING ACTIVITIES:**

Sales of Engineering products were adversely affected during the latter half of the year because of the recession in the Engineering industry. Turnover for the year as a whole, however, was better than that for the previous year but because of the slackening of demand and the necessity to sell the products on more liberal credit terms than before, the capital employed in this sector of our business increased, with the consequent increase in interest charges and therefore reduction in profit margins.

On the other hand, the turnover and profits of consumer products showed an improvement over the previous year although shortage of raw materials affected the supply position during the early part of the year.

Our relationship with our Principals continued to be excellent.

4. **DEVELOPMENT PROGRAMME:**

I had stated in my address to you last year that we had negotiated a Contract with Messrs. Toyo Engineering Corporation, Japan, for the supply, erection and commissioning of a Plant to manufacture 200 tonnes of Soda Ash and 200 tonnes of Ammonium Chloride per day with scope for doubling the production in due course. The economic viability and the ultimate financial success of the project depended to a large extent on the cost of one of the main raw materials which was ultimately found to be available only at a price which rendered the Project unattractive. In the event, your Board has decided, with regret, not to pursue this scheme further for the present.

Consistent with the broad policy of your Board regarding the Development Programme of your Company which I referred to in my address to you two years ago, your Board are currently examining a number of schemes which, if pursued, will widen the Company's industrial base and enlarge the range of its activities. Shareholders will be appraised of fuller details at the appropriate juncture.

I am happy to be able to report that the construction of the Rs. 14 crore Thana Factory of Herdillia Chemicals Limited has been completed and the factory inaugurated on the 18th February 1968. It is expected to go into commercial production in the near future.

The factory of Coromandel Fertilisers Limited at Visakhapatnam has already gone into production and your Company has been appointed Principal Selling Agents for the products manufactured by them. Barring unforeseen circumstances, our substantial investment in this project should shortly begin to pay off.

5. **CENTRAL BUDGET:**

The Finance Minister presented to the Indian Parliament the Budget for the year 1968/69. It has been proposed, inter alia, that the present rate of Sur Tax payable by companies of 35% in terms of the Company's (Profits) Sur Tax Act 1964 be reduced to 25%. Also, the tax of 7½% on dividends in excess of 10% of Equity Capital is proposed to be abolished.

Whilst these reliefs do not apply in respect of the Company's financial year ended 30th September 1967 and are not likely to lead to any substantial savings in tax in the immediate future in so far as your Company is concerned, from a long-term point of view they will prove beneficial. Following upon the Central Budget, the Reserve Bank announced a reduction of 1% in the Bank Rate on the 2nd March 1968 from the

prevailing rate of 6%. I hope that this will result in reduced interest charges and help to activate the capital market.

6. **LABOUR RELATIONS:**

Both in the Sugar Units and Fertiliser Units covered by the respective Wage Boards, the Company has granted Interim Relief pending the final recommendations of these Wage Boards.

Relations with labour in both Nellikuppam and Ranipet remained satisfactory. In Ennore also during the period to which this report relates there was no special difficulty. Since the year ended, however, there have been indications of strain following on a deterioration of the labour situation in the Madras area. I am convinced that the large majority of workers are keen on maintaining normal standards of work, leaving the question of grievance to be settled peacefully through established channels of conciliation and adjudication. It is disturbing, however, to note that a small minority—often a negligible minority—is nevertheless capable of causing disharmony and disruption of production. The problem as usual is the injection into labour disputes of politically motivated leadership. The situation in the Madras area has been far from satisfactory; and no one has gained from this, neither labour which has lost wages, nor management which has lost production, nor Government which has lost certain tax revenues nor the community itself. One can only express the hope that trade unionism in Madras will develop on strong healthy lines interested only in labour welfare and not get lost in the byplay of politics.

NOTE: The above statement is not a report of the proceedings of the Annual General Meeting, which will be held on 27th March, 1968.

AN EASTERN ECONOMIST PUBLICATION

INDIA'S PROGRESS SINCE INDEPENDENCE

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

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Company Affairs

and the construction will be taken up as soon as foreign exchange and other arrangements are completed.

NATIONAL RAYON

Although the National Rayon Corporation Ltd has suffered a sharp setback in its working, the directors propose to maintain the equity distribution of 28 per cent for 1967. This distribution includes, as in the previous year, a bonus element of four per cent. The distribution for 1967 is, however, payable on an enlarged capital as increased by the issue of bonus shares in the ratio of one share for every ten shares held.

The company's gross profit declined by 15.3 per cent from Rs 612.07 lakhs to Rs 518.74 lakhs. The income from gross sales of yarn fell from Rs 18.41 crores to Rs 17.97 crores but those of chemicals increased from Rs 1.73 crores to Rs 2.04 crores. Thus, the total gross sales were more or less maintained at Rs 20 crores as compared with Rs 20.15 crores in 1966. But with a steep increase in excise duty from Rs 345.21 lakhs to Rs 399.16 lakhs, the net realisations was lower by about Rs 68 lakhs to Rs 16.01 crores.

The drop in sales by Rs 68 lakhs during the year was due to a decline not only in quantity of industrial yarns sold but also in selling prices of both textiles and industrial yarn. The loss arising out of these factors was to some extent offset by an increase in the quantity of textile yarn sold and higher turnover in chemicals.

Out of the gross profit, the directors have appropriated Rs 110.45 lakhs to depreciation as compared with Rs 133.14 lakhs in 1966 while taxation claimed Rs 255 lakhs as against Rs 305 lakhs in the preceding year. The amount set apart for development rebate reserve was reduced by Rs 0.3 lakh to Rs 6.50 lakhs while the allocation for managing agents' remuneration was slashed by Rs 2.27 lakhs to Rs 17.70 lakhs. This leaves a lower net profit of Rs 129.09 lakhs as against Rs 147.16 lakhs in 1966. With the unappropriated profit of previous year amounting to Rs 4,000, the disposable surplus aggregated to Rs 129.13 lakhs. Out of this, a sum of Rs 29 lakhs was transferred to debenture redemption reserve as compared with Rs 33 lakhs a year ago while the provision for general reserve was reduced by Rs 16.93 lakhs to Rs 100 lakhs. The proposed equity dividend will absorb Rs 89.60 lakhs, an increase of Rs 11.85 lakhs over 1966, and it will be paid out of the general reserve. The surplus of Rs 13,000 has been carried forward.

SEN-RALEIGH

The handsome rise in sales and profits have enabled the directors of Sen-Raleigh Ltd to declare a higher equity dividend of nine per cent for the year ended September 30, 1967, as against eight per cent paid in the previous year. Sales rose by about 13 per cent to Rs 7.81 crores from Rs 6.92 crores in 1965-66. All the major items have contributed to the increase in sales. After meeting all charges and providing for depreciation and development rebate reserve, the company has earned a higher profit of Rs 41.42 lakhs as compared with Rs 40.04 lakhs in 1965-66. The allotment to depreciation reserve was slashed by Rs 1.47 lakhs to Rs 26.91 lakhs while the amount set apart to development rebate reserve was enhanced from Rs 1.29 lakhs to Rs 2.31 lakhs. Taxation reserve was earmarked Rs 22.83 lakhs as compared with Rs 21.31 lakhs in the preceding year while a sum of Rs 0.18 lakh was set aside to capital reserve as against Rs 0.12 lakh in the previous year. The amount transferred to reserve for repayment of loans was maintained at Rs 5.25 lakhs, while no provision has been made to reserve for depreciation on investments as against Rs 75,000 allotted in the preceding year. The proposed equity dividend will absorb Rs 12.15 lakhs as compared with Rs 10.80 lakhs in 1965-66. The preference

MAHINDRA & MAHINDRA

MAHINDRA & MAHINDRA Ltd is making efforts to diversify its range of production in order to overcome the recession in the automobile industry. It has already started marketing its trucks and will soon come out with station wagons and two-wheel drive jeeps. The cost of expansion and diversification programme is estimated at Rs 1.5 crores and the company is planning to enter the capital market shortly with a debenture issue of Rs 1.25 crores for financing the above schemes.

The company has reported satisfactory working results during the year ended October 31, 1967, with an expansion in turnover from Rs 20.93 crores to Rs 21.66 crores and a rise in gross profit from Rs 106.96 lakhs to Rs 113.09 lakhs. The directors have proposed to pay an equity dividend of 10 per cent for 1966-67 as against 15 per cent paid for the previous year. The proposed dividend is, however, payable on a higher capital as raised by the one-for-five bonus issue during the year. The bonus shares rank for full dividend. The right shares issued in 1966 will also be entitled for the full dividend. The total equity dividend distribution will claim Rs 31.68 lakhs as compared with Rs 36.30 lakhs in 1965-66. The company's performance would have been more encouraging but for the drastic cut made in production of vehicles following the steep fall in demand during the last six months of the year under review. The demand for automobiles has been picking up since the beginning of 1968 and if the progress is maintained, the company expects to show better working results during the current year.

The directors have enhanced the provision for depreciation by Rs 1.23 lakhs to Rs 22.59 lakhs while a sum of Rs 46 lakhs was set apart to taxation reserve as compared with Rs 41 lakhs in 1965-66. The allocation to development rebate reserve was stepped up from Rs 2.95 lakhs to Rs 3.10 lakhs while the amount transferred to general reserve was reduced by Rs 69 lakhs to Rs 5 lakhs. The proposed equity and preference dividends will claim Rs 36.17 lakhs as against Rs 40.79 lakhs in the preceding year. The surplus of Rs 0.28 lakh has been carried forward as against Rs 0.05 lakh brought in.

INDIAN ALUMINIUM

Indian Aluminium Company Ltd has made considerable progress in the implementation of its west coast project. The new smelter and alumina plant which is being built on a 1,200-acre site at Belgaum in Mysore state will produce 30,000 tonnes of aluminium annually in its first stage and it will be commissioned into production by the end of 1969. The smelter is being designed for the ultimate expansion to 100,000 tonnes per annum or more in stages. The bulk of the metal produced in the first stage will feed the electrical industry and the rest will be fabricated to meet the customer's specifications. The alumina plant which will refine the bauxite ore to produce alumina required at the smelter will be set up alongside the smelter and is expected to go into production by the middle of 1970.

Considerable financial economies are expected in siting these two plants next to one another. The west coast project includes the construction of a new fabricating plant in the Greater Bombay area which will process about one-half of the metal produced at the Belgaum smelter.

Indal also has at Kalwa, near Bombay, a major fabricating plant which will produce aluminium foils, powder and paste. The new fabricating plant will serve the growing aluminium sheet market in the Bombay area and will also meet the foil stock requirements of the nearby Kalwa foil plant. The fabricating plant is already on the drawing boards.

dividend will claim Rs 1.95 lakhs, the same as in 1965-66.

Considerable progress has been made by the company in the implementation of the moped scheme. Messrs Sen & Pandit Pvt Ltd, the associated company, has received a letter of intent and has agreed to transfer the industrial licence when issued. The scheme for financing the moped venture will be placed before the shareholders in due course.

At the forthcoming meeting, the members will approve the resolution authorising the directors to acquire all equity shares in Noakhali Machine Tools Private Ltd. By this acquisition the company will be able to build up capacity for manufacturing special purpose machines, tools and machine spares.

UNILEVER

The preliminary working results of Unilever Ltd and Unilever N. V. for the year ended December 31, 1967, show an increase of seven per cent in sales to third parties to £2,022 million as compared with £1,893 million in 1966. Profit before taxation went up by more than 20 per cent or £24.1 million to £142.5 million while the consolidated net profit was higher at £81.9 million as against £61.8 million over the preceding year.

The boards have recommended in the case of Unilever Ltd a final dividend of 9d, bringing the total dividend for 1967 to 1s 6d per 5s ordinary share before deducting income-tax as compared with 1s 3d for 1966. A final dividend of fl 2.17 was proposed for Unilever N. V., carrying the total dividend for the year to fl 4.67 per fl 20 nominal amount of ordinary capital as against fl 4.21 paid for 1966.

DEVIDAYAL TUBE

Despite a marked rise in sales to Rs 152 lakhs from Rs 86.83 lakhs, the working of Devidayal Tube Industries Ltd has resulted in a loss of Rs 13.81 lakhs during the year ended June 30, 1967, as against a net profit of Rs 3.29 lakhs in the previous year. The loss has been arrived at after providing Rs 4.21 lakhs for depreciation as against Rs 5.05 lakhs in the preceding year. After making adjustments and withdrawing Rs 4.75 lakhs from the general reserve, the loss has been reduced to Rs 6.24 lakhs.

The directors attribute the set-back in the company's working to the high cost of raw materials and the general recession in the economy. The board has come to the conclusion that in view of the rise in costs, it was not advisable to go ahead with the expansion plans.

PHILLIPS CARBON

Phillips Carbon Black Ltd has reported highly encouraging working results during the year ended November 30, 1967 with marked improvements in sales and profits. Sales recorded a smart rise to Rs 341.40 lakhs from Rs 315.36 lakhs while the profit after meeting all charges and depreciation but before providing for taxation, was substantially higher at Rs 107.76 lakhs as compared with Rs 90.15 lakhs in the previous year. During the year the plant produced over 37 million lbs of carbon black as against the licensed capacity of 40 million lbs and 31 million lbs produced in 1965-66. Sales continued to move up at a reasonable level until the end of the year when the demand slackened as a result of reduced production of tyres, forcing the reduction in the output of carbon black. The government has finally approved the scheme for expansion to 50 million lbs, the work on which has already started. It is expected to be completed by September this year. The directors propose to apply to the Controller of Capital Issues for sanction for making a one for five bonus issue.

The directors have provided a sum of Rs 20.59 lakhs to depreciation as compared with Rs 20.95 lakhs in 1965-66 while

the amount earmarked for taxation reserve was raised by Rs 12.50 lakhs to Rs 49.50 lakhs. A sum of Rs 65,100 was allotted to development rebate reserve as compared with Rs 6 lakhs in the preceding year. This leaves a sum of Rs 57.61 lakhs, for appropriation as against Rs 47.75 lakhs in 1965-66 which includes Rs 60,066 as unappropriated amount brought forward from the previous year. The entire sum of Rs 57.61 lakhs was transferred to general reserve. The equity dividend maintained at 15 per cent will absorb Rs 23.44 lakhs and it will be paid out of the general reserve.

AMAR DYE-CHEM

The directors of Amar Dye-Chem Ltd have decided to skip the equity dividend for 1967. Instead they propose to issue bonus shares in the ratio of one bonus share for every six shares held. The decision to pass over the equity dividend has been taken with a view to conserving resources for the company's expansion. Despite a satisfactory rise in sales from Rs 439.17 lakhs to Rs 475.53 lakhs, the company has earned a lower gross profit of Rs 73.27 lakhs as compared with Rs 84.13 lakhs in the preceding year. The provision for managing agents' commission was reduced from Rs 3.49 lakhs to Rs 3.22 lakhs while the allocation to development rebate reserve was raised by Rs 2.43 lakhs to Rs 5.70 lakhs. Taxation claimed Rs 15.20 lakhs as against Rs 18.50 lakhs in the previous year while the appropriation to depreciation reserve was lower at Rs 38.52 lakhs as compared with Rs 44.81 lakhs a year ago. The proposed preference dividend will absorb Rs 1.71 lakhs, the same as in 1966.

The company has expanded the range of its reactive dyes. During the year under review, it produced 11 new dye intermediates. The plants for all the organic peroxides are ready for operation. The company's phthalocyanine green plant has commenced regular production while the plant for phthalocyanine blue is ready for regular production. Its betanaphthol plant is expected to go into production by the end of 1968.

JAIPUR UDYOG

The Jaipur Udyog Ltd has finalised its scheme for putting up a new cement factory at Beawar in Rajasthan. The plant, which will be based on dry process, will have an annual capacity of four lakh tonnes of cement. Construction work is expected to commence shortly. The total cost of the project is estimated at about Rs 9 crores. Loans totalling Rs 4.4 crores have been sanctioned by the Industrial Development Bank, the LIC, ICICI and IFC. There are vast reserves of cement grade limestone near Beawar and a mining lease for an area of 10 square miles has already been obtained by the company.

POYSHA INDUSTRIAL

Poysha Industrial Company Ltd is offering for public subscription for cash at par 35,000 redeemable cumulative preference shares of Rs 100 each carrying an interest of 9.5 per cent per annum. The subscription list opened on March 19 and will close on March 30 or earlier at the discretion of the directors but not earlier than March 21, 1968. The entire public issue is underwritten.

The company which was incorporated as a private limited company on July 2, 1957 was converted into a public limited company on June 28, 1961. It is currently engaged in the manufacture of printed tin containers and open top sanitary cans. It is now embarking upon ambitious schemes for modernisation and expansion of its activities. In pursuance of these schemes, the company has put up a most modern factory at Thana in the Kalwa industrial area. Most of the manufacturing activity till recently carried out at Sewri, has been shifted to Thana. In addition to the Thana factory, the company has established a new factory at Ghaziabad in the Ghaziabad Industrial Area. The company is also setting up a factory

at Cochin, in Kerala. Land for the factory has already been acquired. Construction work is expected to commence shortly.

PROMAIN

Promain Ltd, New Delhi, will soon be entering the capital market with a public issue of Rs 17.30 lakhs, consisting of 7,350 equity shares of Rs 100 each and 9,950 cumulative redeemable preference shares of Rs 100 each, carrying an interest of 10 per cent per annum. The entire public issue is fully underwritten.

The company proposes to undertake the manufacture of all kinds of wire drawing and stranding machines, especially machines required for making aluminium cables. It has obtained industrial licence for 130 sets of wire drawing machines, 24 stranding machines, 6 laying-up and armouring machines and 10 wire spooling machines per annum. It has entered into a collaboration with the Central Mechanical Engineering Research Institute, Durgapur. Negotiations are in progress with Demag, West Germany, for manufacturing plastic extrusion plants in India and with Maxie of France for manufacturing coil winding machines. The factory will be located at Aurangpur, in Haryana state. The capital outlay on the project is estimated at Rs 36.50 lakhs.

DALMIA CEMENT

The holders of preference shares in Dalmia Cement (Bharat) Ltd have been offered an option to convert their holdings into ordinary shares on the basis of three ordinary shares for every four preference shares held. Both these shares are of Rs 10 each. The new ordinary shares to be thus issued will rank pari passu with the existing ordinary shares in all respects, except that they will not participate in any dividend for 1967.

UNIT TRUST

The sale price of a unit of the Unit Trust of India was raised by five paise to Rs 10.60 with effect from March 9, 1968. The repurchase price per unit was also raised simultaneously by five paise to Rs 10.10.

CAPITAL ISSUES DURING OCT.-DEC. 1967.

The Controller of Capital Issues accorded permission in all to 96 companies for raising capital amounting to Rs 33.71 crores during the quarter, October-December 1967. This includes applications received during the earlier period and consents granted during this quarter. Applications from 101 companies for a total of Rs 63.97 crores were received during the quarter under review.

Among the consents granted during the period, 75 for a total of Rs 10.43 crores were for the issue of bonus shares. The break-up of Rs 71 crores is as follows:

Equity—Rs 9.16 crores; Preference—Rs 2.69 crores; Debenture—Rs 10.75 crores; Bonus—Rs 10.43 crores; Loans etc.—Rs 0.68 crores.

During 1967, 493 applications were received for permission to issue capital amounting to Rs 265.59 crores and 469 applications were approved for an amount of Rs 234.62 crores. Among the sanctions granted in 1967, a total number of 344 for a sum of Rs 47.85 crores were for the issue of bonus shares.

Out of 27 approvals amounting to Rs 52.35 crores granted to companies for issue of capital for the first time during 1967, 15 were for a total amount of Rs 43.06 crores involving foreign participation to the extent of Rs 13.69 crores.

CAPITAL AND BONUS ISSUES

Consent has been accorded to 16 companies to raise capital amounting to more than Rs 4.99 crores. Ten of them are to issue bonus shares exceeding Rs 83 lakhs. The amount of bonus shares ranges between Rs 2 lakhs and Rs 30 lakhs.

The consents are valid for 12 months. The following are the details:

Shakti Insulated Wires Private Ltd, Bombay, has been accorded consent to capitalise Rs 10 lakhs out of its general reserve and issue fully-paid equity shares of Rs 100 each as bonus shares in the ratio of two for five equity shares held.

Madura Co. Private Ltd, Cochin, is permitted to capitalise Rs 8 lakhs out of its general reserve and issue fully-paid equity shares of Rs 1,000 each as bonus shares in the ratio of two for three held.

Press Metal Corporation Private Ltd, Bombay, has been given consent to capitalise Rs 2,25,000 out of profit and loss account and issue fully-paid equity shares of Rs 100 each as bonus shares in the ratio of nine for ten held.

The New Government Electric Factory Ltd, Bangalore, is allowed to issue capital of Rs 180 lakhs, consisting of Rs 80 lakhs in equity shares and Rs 100 lakhs in cumulative redeemable shares of Rs 100 each.

The Jaipur Udyog Ltd, Swai Madhopur, has been given permission to issue capital of Rs 50 lakhs and issue equity shares of Rs 10 each for cash at par as rights shares. The proceeds are to be utilised for setting up a new cement factory in Rajasthan.

Assam Cement Ltd, Shillong, is allowed to raise capital of Rs 50 lakhs and issue equity shares for cash at par to be offered to existing shareholders for financing its expansion.

R. B. Narain Singh Sugar Mills (Private) Ltd, Delhi, has been accorded consent to capitalise Rs 30 lakhs out of its general reserve and issue fully-paid equity shares of Rs 1,000 each as bonus shares in the ratio of two bonus shares for every equity share held.

Duncan Brothers & Co. Ltd, Calcutta, has been permitted to capitalise Rs 11.88 lakhs out of its general and capital reserves and issue fully-paid equity shares of Rs 100 each as bonus shares in the ratio of one for ten held.

Electronics Ltd, Delhi, has been given consent to capitalise Rs 9,56,585 out of its general reserve and issue fully-paid shares of Rs 10 each as bonus shares in the ratio of one for one held.

Therielek Furnaces Private Ltd, Bombay, has been given permission to capitalise Rs 4.5 lakhs out of its general reserve and issue fully-paid equity shares of Rs 100 each as bonus shares in the ratio of three for two held.

The General Talkies Ltd, Delhi, is allowed to capitalise Rs 3,34,150 out of its general reserve and issue fully-paid equity shares of Rs 50 each as bonus shares in the ratio of one for two held.

Water Supply Specialists (Private) Ltd, Bombay, is permitted to capitalise Rs 2.5 lakhs out of its general revenue and issue fully-paid equity shares of Rs 1,000 each as bonus shares in the ratio of one for two equity shares held.

New Bharat Engineering Works (Jamnagar) Private Ltd, Jamnagar, has been permitted to capitalise Rs 2 lakhs out of its free reserve and issue fully-paid equity shares of Rs 100 each as bonus shares in the ratio of one for four held.

The Yemmiganur Spinning Mills Ltd, Hemmiganur (Andhra Pradesh), has been given consent to capitalise Rs 25 lakhs (Rs 20 lakhs in equity and Rs 5 lakhs in preference shares) of Rs 100 each for cash at par. The proceeds will be utilised for expansion of the project.

Mukand Iron & Steel Works Ltd, Bombay, is allowed to capitalise Rs 1 crore in the form of debentures of Rs 1,000 each carrying interest at 7.75 per cent and acceptance of short-term loan from the public guaranteed by managing agents. The proceeds will be utilised for meeting the cost of expansion and working capital.

Madan Industries Ltd, Hastinapur (Uttar Pradesh) is permitted to capitalise Rs 11 lakhs in equity shares of Rs 10 each for cash at par for meeting the enhanced cost of the project for manufacture of cotton yarn.

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RECORDS AND STATISTICS

The Poverty of Nations

A DECADE of research lies behind 'Asian Drama: An Inquiry Into the Poverty of Nations,' a major Twentieth Century Fund study and a landmark in the career of Gunnar Myrdal, the Swedish economist. This three-volume study is an analysis of the problems of underdevelopment, development, and planning for development in South Asia. The countries included are India and Pakistan, which are intensively studied, Ceylon, Burma, Thailand, Malaysia, Indonesia, the Philippines, and, to a lesser extent, Laos, Cambodia and South Vietnam.

Unlike most current studies of South Asia's economic problems, 'Asian Drama' is candid to the point of being undiplomatic. It does not assume that the South Asian countries, though poor, are developing. Nor does it assume that it is just a matter of time, and outside assistance, before these countries begin to develop. Instead, this study takes a hard and searching look at the economic, social and political realities of South Asian life, and finds that they cast a serious pall on the region's development prospects.

Just as Professor Myrdal's approach is unconventional, so is his explanation of the region's plight. South Asia's poverty is commonly attributed to a shortage of capital. Professor Myrdal disagrees. He concludes that irrational attitudes and outmoded institutions are mainly responsible for the abysmally low levels of living in South Asia. On the basis of his exhaustive inquiry, which included residence in the region, discussions with leaders and ordinary people, and close examination of publications and statistical material, he is convinced that the key to South Asian development is what he terms "institutional" change.

The study begins by considering political problems; successive topics are economic realities, planning, labour utilization, population size, and population quality. The brief notes which follow give only a hint of the book's substance. They are designed for the reader who wishes to scout the terrain before exploring it in depth.

Part I: Introduction

Professor Myrdal contends that one cannot take the full measure of the development problem confronting South Asia until one understands how factors like poverty, ignorance, ill health, climate, different languages and religious convictions, and prevailing social and political attitudes and institutions influence the conduct of economic affairs. Therefore he refuses to accept western concepts and theories which assume an environment imposing no barriers to progress and sets himself the Herculean task of putting economic facts in their true social, political and physical setting.

Social scientists, like all human beings, have a full quota of sympathies and prejudices. They must search out and specify the value premises that guide their studies, says Professor Myrdal, and he takes pains to do so in 'Asian Drama'. This book, he says, reflects his conviction that it is desirable and important that the South Asian countries move toward certain goals, prominent among them being higher levels of development and increased social and economic equality (pp. 57-68). He points out that these valuations, which he sets forth in detail, are held by influential South Asians themselves (pp. 54-56).

Part II: Political Problems

South Asian's development prospects depend in large part on the extent to which the governments in power are able to frame appropriate policies and make these policies effective. In Part Two, Professor Myrdal seeks to determine how suc-

cessful the new states have been in evolving workable systems of government.

He notes that while "all of the new states had to face the fact that independence did not automatically bring about a condition of national consolidation" (p. 174), the dimensions of the problem varied considerably in the several states. Geographical circumstances are more favourable to unification in some countries than in others. At one end of the scale is Ceylon, which is a compact island; at the other end are Indonesia, spread over many widely scattered islands, Pakistan—divided into two widely separated wings—and India, which has territorial integrity but is too large to be easily administered as a unit. Ethnic and religious divisions and social and economic cleavages are more pronounced in some countries than in others. Other factors differentiating the situation of the various states are more directly related to their colonial experience. Because their indigenous citizenry had not been permitted to participate in the processes of government to any appreciable extent and because the transfer of power was far from smooth, "Burma, Indonesia, and the successor states of Indo-China were more handicapped in assuming the responsibilities of independence than were other new states in the region, even taking into account the painful consequences for India and Pakistan of partition" (p. 174). India was uniquely fortunate in having, as a legacy of her independence movement, a group of public-spirited men who were schooled in politics and understood the need for social and economic reform (pp. 259-61).

Political Developments

Having placed the problem in historical perspective, Professor Myrdal evaluates political developments in the new states. The record is not encouraging.

In Pakistan, Indonesia and Burma democratic governments proved incapable of disciplining their own members, much less imposing law and order on the multitudes, and succumbed to military dictatorships which have yet to demonstrate their ability to give a responsible direction to political and economic activity. In Ceylon, popularly elected governments have signally failed to avert communal strife; democracy endures mainly because the army is not in a position to assume political power. India provides an interesting contrast in that its government has proved remarkably stable. It dealt very efficiently with the problems arising out of the departure of the British and partition, and established planning as a regular governmental activity. However, the leadership failed to enact major social and economic reforms in the first flush of independence, when this might have been possible, and political power has shifted over the years to those who are more conservative, even reactionary (pp. 273-78).

Part III: Economic Realities

In Part Three, Professor Myrdal addresses himself to the realities of South Asia's economic situation. One of these realities is the overwhelming importance of agriculture. In every country in the region agricultural activities account for more than half of the national income and serve as a means of livelihood for more than two-thirds of the population (pp. 495-96). Productivity in agriculture is a good indication of the level of economic development.

Agricultural land is not abundant. In relation to population, South Asia's land resources are roughly comparable to those of Europe. Furthermore, the land is not intensively cultivated; output per hectare is far lower than it is in other, densely settled regions. These facts in conjunction account

for the low level of agricultural output and suggest the nature of the development problem (pp. 414-17).

Another economic "fact of life" Professor Myrdal singles out for attention is the foreign exchange situation of countries in South Asia. In recent years their export earnings have failed to keep pace with their imports, which have risen as a result of more strenuous development efforts and mounting food deficits (pp. 595-603). Despite an unprecedented inflow of foreign capital, they have therefore been forced to adopt increasingly stringent exchange controls. This trade imbalance can be expected to worsen in the future because there is little prospect of an expansion in demand for most of the region's traditional exports (pp. 643-49). The South Asian countries might attempt to diversify their exports with manufactured goods, but the difficulties of breaking into western markets are formidable; nor are alternative markets very promising (pp. 650-51; 653-61). The most feasible policy would seem to be that of developing import substitutes (pp. 669-72). The inflow of capital, originating as it does with foreign governments and inter-governmental organizations, is an uncertain factor. But even if these agencies maintain their present volume of loans and grants, the mounting total of debt service charges will work to reduce the net capital inflow (p. 667).

Professor Myrdal observes that in their early stages of development the western nations enjoyed the stimulus of a rising tide of external demand (pp. 682-83). Since this "engine of development" is largely absent in the case of the South Asian countries, they will themselves have to create conditions that could increase the tempo of economic activity. Moreover, the situation from which they begin is less favourable than that of the western countries immediately prior to the industrial revolution: their political institutions are less well developed; their land resources are less susceptible of expansion and their populations are increasing rapidly; their living levels are lower and their social and economic structures are more stratified; and they live in a world where the pace of change is constantly accelerating (pp. 690-707).

Part IV: [A Third World of Planning

Articulate South Asians have definite ideas about the lines along which they want their society to develop. In this part of the book, Professor Myrdal describes these ideas and indicates the extent to which they have influenced the course of events.

He points out that, unlike the western countries, where planning followed development and was a "natural" process, the South Asian countries have tried to use planning to foster development. In this they resemble the communist countries. On the other hand, even those South Asian countries that have come under a military dictatorship are intent on "democratic planning." Thus South Asia constitutes a third world of planning (pp. 738-40).

With independence, the South Asian countries wanted to institute, in its entirety, the modern democratic welfare state, based though it is on a highly developed economy with high average levels of living and substantial equality of opportunity (p. 774). Politically, they wanted to establish genuine democracy based on western institutions and practices. Today only India, Ceylon, the Federation of Malaysia, and the Philippines have functioning systems of parliamentary government; the other countries have resorted to some form of authoritarian regime (pp. 775-79). Professor Myrdal feels "it is impossible to say that one form of government has proved more conducive to the application of policies of economic and social reform than the other" (p. 779).

Although socialism has considerable appeal throughout the region, he finds that economic application of the socialist ideology is contemplated mainly in those fields where little private initiative has been manifest. State ownership or

management is limited to public utilities, large-scale industry, mines, large plantations, banking, insurance and, to some extent, commerce (pp. 808-09; 819). Nowhere is agriculture—apart from the large plantations—regarded as a target for collectivization. Socialism in South Asia is a "rather vague term for the modernization ideology, with an inherent stress on equality as a primary planning objective" (p. 808).

Greater social and economic equality is a proclaimed aim of public policy—indeed, economic development is usually defined as a rise in the living levels of the masses. Nevertheless, "economic inequalities have generally not decreased since independence; if anything they have increased in all the countries of the region, with the possible exception of Ceylon" (p. 756). Professor Myrdal explains the reasons for inequality, an important one being the centralization of political power in a very small upper class (pp. 766-67).

All of the South Asian governments recognize the need to involve the mass of their people in plans for economic betterment. However, they expect voluntary co-operation. Professor Myrdal is highly critical of this attitude, because he finds that the level of social discipline is very low everywhere in the region; the people must be taught that they have obligations to the national community and that these obligations are to be taken seriously (pp. 891-95). "There is little hope in South Asia for rapid development without greater social discipline" (p. 895).

Where development plans go beyond stating a creed, they are constructed as financial plans, focussed on public investment. There is little co-ordination of public policies. And since policies relating to education and health, improvement of administrative services, land reform, projects for community organization, and other reforms in the attitudinal and institutional framework of society "are only incidentally related to expenditure, they are not really integrated into the body of the plans" (p. 901).

Assessing what the plans have accomplished, Professor Myrdal says: "Even in India, plan fulfillment has regularly fallen short of the targets for public investments in basic facilities and in industry. As for the dispersed and less calculable public efforts in agriculture, rural uplift, and education, the distance between plans and accomplishments is even wider" (p. 733).

Part V: Labour Utilization

By analogy to the job-oriented economies of the west, it is commonly assumed that the number of unemployed is an adequate measure of the under-utilization of labour in South Asia and that there is a readily available labour supply awaiting productive employment, which could be provided by increased capital investment (pp. 961-62).

Professor Myrdal challenges this notion in this section. He says that the western concept of unemployment has little meaning in a society where, in the absence of a dole, the pressure of economic distress forces everyone to find some means of support, where the labour market is not fluid, where many persons of working age are disinclined to engage in physical labour, and where standards of work performance are very low. He argues that traditional economic and social attachments, irrational attitudes, ignorance and lack of stamina are more important than capital deficiencies in holding down labour input and efficiency, and he documents his case (pp. 999-1000; 1147-50). For example, he demonstrates that "without any (technical) innovations and even without any investment other than longer and more efficient work, agricultural yields could be raised substantially" (p. 1253). He points out that, among other things, the institutional set-up in agriculture outside the big plantations is such that many landlords absent themselves from their estates. The land is farmed by tenants and sharecroppers who have no

incentive to make improvements because their tenure is uncertain and the rent they pay varies with their gross output. Because of the stigma attached to wage labour and the prestige attached to land ownership, many persons cling to tiny plots while land in larger units is insufficiently utilised (pp. 1065-70).

Even in the non-agricultural economic sector, "the bulk of the labour force is unaccustomed to a rhythm of sustained and diligent work, and management has often been lax in instilling discipline" (p. 1140).

What can be done to increase labour input and efficiency? A programme of radical land redistribution has much to recommend it, says Professor Myrdal, but it is not politically feasible in South Asia today (pp. 1370-75). Instead of continuing to pay lip service to the slogan "Land to the tillers," South Asian nations might do well to "make a deliberate policy choice in favour of capitalist farming" (p. 1380). Progressive cultivators should be allowed and encouraged to reap the rewards of their efforts. Non-participating landowners could be penalized by heavy taxes, and the transfer of titles to non-farming non-residents could be prohibited by law (p. 1380).

Technological reforms would have a favourable effect on labour utilization in agriculture and improve yields; even mechanization "need not be associated with less labour-intensive agricultural practices as it has been in the western countries" (p. 1299). But Professor Myrdal warns South Asian planners that "the success of technological reforms... hinges largely on the extent of prior, or at least simultaneous, institutional changes" (p. 1260).

Although the South Asian countries must industrialize as quickly as possible, he emphasizes that industrial expansion is unlikely to spark a general rise in economic activity (p. 1189). Even if entrepreneurs want to seize new opportunities, they may be unable to obtain the necessary supplies, facilities or trained personnel (pp. 1188-90). For several decades to come, he says, an expanding industrial sector cannot hope to employ more than a small number of additional workers, much smaller than the annual increase in the labour force, and that prospect underscores the need to give more attention to increasing the use of labour in agriculture (pp. 1173-84). At the same time, village crafts and small-scale urban enterprises must be promoted in order to give work to the rapidly increasing labour force.

Part VI: Population Size

Professor Myrdal feels strongly that economic development in South Asia cannot be realized unless the rate of population growth is checked. In Part Six he examines the dimensions of the population problem.

From World War II to date, the application of modern medical techniques has caused a sharp decline in South Asia's death rate. Since fertility has remained stable at a very high level, there has been a steep rise in the rate of population growth. The forecast is for mortality to continue to decline while fertility remains constant or rises slightly (pp. 1414-22; 1438-43). By 1980 the population of South Asia is likely to increase by 60 to 70 per cent over 1960, to 1,150-1,250 million (p. 1458).

Against this background, Professor Myrdal argues for much stronger efforts to spread the practice of birth control, on the ground that "the rapid and accelerating population increase is retarding economic advance and holds the threat of economic stagnation or deterioration" (p. 1463). Until now, he says, there has been a "tendency among political leaders to draw false conclusions from western experience, and assume vaguely that birth control will spread spontaneously with

industrialization, urbanization, and rising levels of living" (p. 1509). But indications are that in South Asia the birth rate is not significantly correlated with income, literacy, education, occupation or caste (pp. 1446-47). Hence Professor Myrdal finds no reason to believe that economic or social progress

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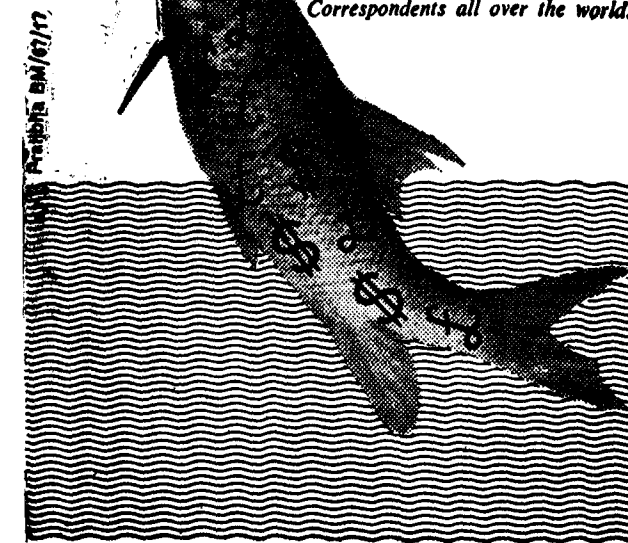
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will have an automatic restraining effect on population growth.

While urging large-scale birth control campaigns, Professor Myrdal warns that the population increase can be halted only gradually. "The most important feature of this momentous growth process is that within the next decades, government action, no matter how vigorous, determined, and concerted, could do very little, if anything, to hold in check the powerful social forces propelling it" (p. 1458). Probably the most important factor is the youthfulness of today's population, which imparts a tremendous momentum to further increases and ensures that the labour force will grow rapidly until the end of this century. In fact, most of those who will be of working age fifteen or twenty years hence are already born, and "for a generation ahead,.....the size of the labour force will not be very greatly changed by any reduction in fertility rates that might occur" (p. 1468).

Interest in population control will increase, and "it would not seem excluded that by the beginning of the 1970's government programmes for family limitation will be in operation in all of the South Asian countries" (p. 1529). If past experience is a guide, these programmes will suffer from a shortage of medical and administrative personnel. Still, he says that "the possibility now exists that the spread of birth control will be the greatest change in the next few decades" (p. 1530).

Part VII: Population Quality

The standard of living in South Asia today is so low as to be detrimental to health; poor nutrition causes deficiency diseases like anaemia and beriberi; crowded housing abets the spread of communicable diseases. The low standard of public sanitation is probably the greatest hazard of all, according to Professor Myrdal.

All of the South Asian countries have taken steps to expand their health facilities and to train medical personnel. But Professor Myrdal finds that by 1960 even the best endowed countries had less than 20 per cent as many medically trained people as the nations of western Europe and their need was greater because of their higher disease rates (p. 1586).

Health facilities are distributed unevenly among the nations of South Asia, in accordance with their relative economic positions (pp. 1582-92). Most hospitals and doctors are in cities and towns; the rural population continues to be treated by practitioners of indigenous medicine (pp. 1592-95; 1598-1602). Only Ceylon and the Philippines have a well-balanced network of health facilities in rural areas. There are almost no qualified pharmacists, except in Ceylon and India.

The inter-relatedness of health problems in South Asia makes progress difficult, Professor Myrdal says. "From the planning point of view the effect of any particular policy measure in the health field depends on all other policy measures and is, by itself, indeterminate" (p. 1618). Although new medical technology has brought about a big decline in the incidence of many diseases, "efforts to prevent and cure disease will increasingly require reforms in the field of nutrition, sanitation and hygiene and an increase in the supply of properly trained medical and paramedical personnel, equipment, clinics and hospitals..... Further advance will be much more expensive and slower in coming" (p. 1575).

Education in South Asia must involve more than literary skills if it is to be an effective instrument in promoting economic development, says Professor Myrdal. Rational attitudes toward life and work must be imparted. But he finds that almost nowhere are these broader goals a part of educational policy. In fact the system "has on the whole been left as it was at the end of the colonial era" (p. 1654).

The central educational concern of all South Asian nations has been to increase literacy. In this effort, says Professor Myrdal, priority should be given to increasing literacy among

adults, since this would have an immediate impact on development and would tend to make primary education more effective (pp. 1685-87). Instead, efforts to raise literacy have been concentrated in the primary schools; Indonesia is the only country that has an effective programme of adult education.

Elementary school enrolment has outpaced the growth in population throughout the region, though enrolment is still low in general and is lowest in the poorest countries (p. 1717). Worse still, enrolment cannot be equated with attendance, and even less with educational attainment (p. 1722). "A large number of the children registered as enrolled do not attend school regularly; even if they do so at the beginning, they do not finish school. They never achieve more than a modicum of literacy and are destined to lapse into total or almost total illiteracy; in most South Asian countries only a small number ever acquire functional literacy" (p. 1724). School facilities are woefully inadequate and there is a desperate shortage of trained teachers (pp. 1730-36).

If one considers South Asia's low starting point—the small number of schools and teachers, the low base enrolment—the difficulties of drastically increasing enrolment become apparent. School-age children form a larger percentage of the population in South Asia than in the west. Since the quality of education must be improved at the same time that the number of pupils is increased, an enormous investment is required.

Although expansion of the primary school system has been the announced goal of most planning, Professor Myrdal points out that secondary and tertiary schools have in fact expanded more—both in enrolment and in number of new schools (p. 1745). Concentrated in urban areas, these schools draw their pupils primarily from the urban middle and upper class (pp. 1745; 1801-02).

"The problem of reforming education in South Asia is far from being merely a quantitative one of providing more schools; it is as much or more a problem of eliminating mis-education and large-scale waste of educational resources" (p. 1622). The emphasis is on learning by rote and acquiring degrees. Considering the need for graduates with professional and technical training, Professor Myrdal finds the curriculum overly academic and literary (pp. 1776-80; 1807). Furthermore, little attempt is made to change the notion that education provides an escape from manual work.

Technical Education

Enrolment at the secondary and tertiary level should be kept at its present size, Professor Myrdal says. He recommends greater emphasis on technical and vocational education. "All schooling at the secondary and tertiary levels should be modernized to include more technical and scientific subjects, with greater emphasis on manual work experience" (p. 1817).

Throughout the school system there must be "radical change not only in curriculum, diversification, and direction of teaching, but in the very spirit of the schools and the relationships of the schools, pupils, and teachers with their local community and the larger society. The schools must seek to change the attitudes of the children and, ultimately, of the people" (p. 1823).

Professor Myrdal deplors "the relatively low priority given to genuine and radical reforms in the field of health and education" and attributes it to "the prevailing philosophy of development, which stresses the overriding importance of capital investment" (p. 1540). This has led the South Asian nations astray, he says, because "the investment approach entirely ignores the fact that institutional and attitudinal reforms, which depend on political decisions rather than budgetary considerations, are needed to make investments in education 'pay off,' and the broader consideration that the success of educational programmes depends on the policies pursued in all other fields" (p. 1550).

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Bombay, March 16 (PTD)—The Indian rupee would remain firm, stable and unaffected by what is happening to the world currencies consequent on the gold stampede, the Deputy Prime Minister, Mr Morarji Desai said here today.



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Not Yet Its Moment of Truth

ALL IS over at UNCTAD-II, bar the shouting. It may be that there is nothing much to shout about, but this would largely be because certain expectations, never very realistic, had been aroused. Part of this perhaps was good tactics. Prospects of success for conferences of this kind do improve if the agenda could be dramatised. But there is also the risk in this process of an anti-climax being reached even before the climax itself has time to take shape. Something like this, it appears, happened to UNCTAD-II even within its first few weeks. Long before February was out, it had become obvious that there was not going to be the birth of any new brave world at Vigyan Bhavan, or its annexe, specially built to facilitate a possible great event. In the circumstances, there will soon be, if there is not already, a tendency among national delegations and in national capitals to apportion blame. UNCTAD-II, of course, has not been without its share of behind-the-scenes politics or even back-stair intrigues. But this does not mean that any particular participant, or a group, or more than one group, of participants had come with the deliberate purpose of frustrating UNCTAD-II and has or have succeeded in that task.

International conferences of this kind are convened precisely because the problems they have to resolve are difficult and complicated and no easy solutions are available. It is, therefore, in their very nature to refuse to be classified as complete success or complete failures. What is most often the case is that they succeed in varying degrees or, if one were to look at it in a different way, they fail in different degrees. This is precisely what has happened with UNCTAD-II and if a reasonable assessment is to be made of it, it would be that it has done some, but not all of the things which it had set out to do. At one stage in the proceedings of this conference it was suggested by one of the delegates that the reports of its committees were liable to be riddled with square brackets, the implication being that almost every participant had some reservation or qualification to make in respect of each point for which some sort of general acceptance could be secured. In the closing days of the conference, the delegations have been making efforts, often enough of heroic dimensions, to reduce the number of these square brackets, but their number would still be large at the end and even those which may have been formally removed could continue to exist as invisible punctuation marks in the minds of member-governments.

This is not the time to pass any precise and dogmatic judgment on these tortuous documents of UNCTAD-II's final hours. It would be all the more so because no dramatic denouement of triumph has crowned or is likely to crown this conference as the curtain comes down at Vigyan Bhavan. A journey is difficult to measure when no arresting landmark is passed.

We would, therefore, confine ourselves here to a few general observations which may help rather than hinder us in seeing the results of this conference in their true perspective after the din has ceased and the dust settled down. The greatest gain of UNCTAD-II, in our view, is that it has succeeded in putting up powerful political barriers and the sanctions of a widely shared international opinion against the furtherance of certain trends in the global pattern of commercial policies which were clearly hitting at the trade and trade potentialities of developing countries. We are referring here to the fact that the hopeful recommendations of the inaugural UNCTAD held in Geneva from March to June, 1964, were not only not being implemented in the subsequent years but were being violated, in letter and spirit, by decisions of commercial policy taken by many developed countries in their dealings with the trade of developing countries. Thus, as the Algiers Charter had

noted, no new commodity agreement on primary products of interest to developing countries has been concluded since UNCTAD-I. Developed countries have increased the degree of protection for many of those agricultural products in which developing countries are very efficient producers. Heavy fiscal charges continue to be levied on products of export interest to developing countries. The proliferation and promotion of synthetic substitutes in developed countries has resulted in shrinking markets and falling prices for competing natural products produced by developing countries. Little or no progress has been made by developed countries in dismantling import tariffs on tropical products or in the relaxation of their quota restrictions applicable to industrial products imported from developing countries.

The effect of all these retrograde attitudes and measures is easily seen in the economic statistics of developing countries. Thus the average prices for primary products exported from developing countries were seven per cent less in 1966 than in 1958 as against an increase of 10 per cent in the same period in the prices of primary products exported from developed countries. The share of the developing countries in total world

This script, written by the Editor for a broadcast on March 27, is reproduced here by courtesy of All India Radio.

exports was only 19.3 per cent in 1966 whereas it was 27 per cent in 1953. Again, in 1967, while total world exports increased by five per cent, exports from developing countries went up by only one per cent, the smallest gain since 1958. The external public debt of developing countries has increased from \$10 billion in 1955 to \$40 billion in 1966, while the increase in per capita income of their people has amounted on an average to less than US \$2 per annum as against US \$60 of per capita income in developed countries.

It is to fight this situation and these trends that UNCTAD-II had to be held and it can be stated with some confidence that the labours and achievements of this conference, by and large, should help in stemming the rot. The trade relations between the developed and the developing countries should surely change to the advantage of the latter as a result of what has been said or done at Vigyan Bhavan during these eight weeks or so. For one thing, a body-blow has been struck at tariff barriers to exports from developing countries by the acceptance, in principle and perhaps more than in principle, by the developed countries of a system of generalised, non-reciprocal and non-discriminatory preferences which is to be designed to increase the export earnings of developing countries, promote their industrialisation and accelerate their rates of economic growth. It is, of course, right for developing countries to be dissatisfied with the fact that they have been unable to persuade the other side to put its signature here and now to a specific agreement applying the scheme to a whole range of products. Their proposals have met with resistance from developed countries with highly protectionist policies for their own agricultural producers and while there have

been other complications too, it is primarily this difficulty which has come in the way of UNCTAD-II drawing closer to the Algiers aspirations on the issue of preferences. The conference, however, has not thrown up its hands. Besides getting the principle accepted, it has been able to agree on a continuing machinery to be set up for further consultations which would result in a specific agreement for the implementation of that principle in adequate detail.

On the other results of the conference, such as the agreement reached on shipping and ocean freights, commodity policies or the world food problem, it is not possible to dwell in this brief and general survey. But it is certainly necessary to take note of the fact that, in making recommendations for the promotion of exports from developing countries to the socialist countries, UNCTAD-II has effected a significant advance towards bringing this trade under the general discipline of a framework of reference to the norms of world trade. The socialist countries have not only undertaken to promote their offtake of goods from developing countries, but they have also agreed to improve their trade policies and procedures so that more real and substantial benefits could be reaped by developing countries in their trading with governments with socialist systems. We refer, in particular, to the commitment on the part of the socialist countries that they would not re-export goods imported by them from the developing countries except with the consent of the government of the exporting country concerned.

On the issue of foreign assistance, the developing countries have not been able to secure a commitment on the part of developed countries that they would bring up their allocations for economic aid to developing countries to one per cent of their own respective Gross National Product by the year 1970 or indeed by any specific early date. But even here, UNCTAD-II may succeed to the extent of at least making it difficult for developed countries to think in terms of reducing their existing rates of aid. This is not as negative a contribution as it may seem on surface because in recent years the rate of aid has been tending to go down. Thus, the flow of development finance to developing countries had come down in 1966 to 0.62 per cent of the Gross National Product of the developed countries as against 0.87 per cent in 1961. Given the fact that political, and in some cases economic, difficulties are being experienced by many developed countries in continuing their programmes of international development assistance, UNCTAD-II may at least have performed a useful holding operation by flinging the issue of development assistance at the world conscience.

Finally, it may not be irrelevant here to recall what M. Jacques Rueff, who has the distinction of advising President de Gaulle on gold and international monetary policies, had to say on a former occasion and in a different context. "Prospects for an agreement before a crisis", pointed out M. Rueff, "are very weak. When issues are difficult, they are rarely settled by men but by events". For UNCTAD, its moment of truth is yet to arrive.

A Crisis that Must be Faced

THE CRISIS in the textile industry has assumed serious proportions in recent months and its impact on the spinning mills in the southern region—in Madras state particularly—would be disastrous if remedial measures were not adopted in time. There has been no correct approach so far to the problems confronting the cotton textile mills and the central and state governments have been working at cross purposes. The attitude of Mr Dinesh Singh, union Minister for Commerce and Industry, has been that of a saintly man of virtue chiding the industry for its misdeeds and mismanagement without offering any constructive suggestions.

The minister has been harping, in the past one year, on managements frittering away profits and also diversifying the activities of many mills for building "empires". What exactly is sought to be conveyed by these observations is not clear. In fact, there is no basis at all for these accusations as the Indian Cotton Mills Federation has effectively rebutted these charges. The only accusation that might be made with some justification is that many mills have utilised their resources for purposes of expansion and not adequately enough for modernisation. As for the guilt of promoting empires, it passes one's comprehension why the diversification, which has been more profitable and led to better use of available resources, should not have been attempted especially as these groups have also been managing the textile units efficiently and could scrap their units if it became necessary on account of continuous losses in working. Besides, there are not many groups which have been fortunate enough to diversify their activities and protect themselves against a decline in the profitability of cotton mills.

In Madras state, at any rate, the problems involved are entirely different. There are not many composite mills, while there are over 150 spinning units in the membership of the Southern India Millowners' Association. These spinning units can sell only about 25 per cent of their output of yarn within the state and have to depend on the absorption of the rest of the output by other states and through exports. Barring a few, the existing units have been busily engaged in adding to their spinning capacity in the past decade and because of their peculiar financial structure, many of them are in an over-extended position. As most of the units were started in the 'thirties and sizable profits were made only during the second world war, there was naturally a low capital base and the accumulated reserves were utilised for expansion wherever possible. It cannot be said that all managements have been prudent in conserving their resources or in running their mills efficiently. But their average experience should not be considered disappointing and it was not thought, until 1964, that a serious situation would arise in regard to the marketing of an essential article of consumption.

As the study group, constituted by the National

Commission on Labour, has rightly observed, available resources have been employed for increasing spinning capacity by 60 per cent and weaving capacity to some extent in the past two decades and, because of the lack of growth in demand for cotton textiles, there has even been a decline in spindle activity in the past few years. It has been pointed out that since 1965 spindle activity has come down from 82.8 per cent to 73.1 per cent in the face of an increase in spindleage to the extent of 10 per cent. The profitability of new investment has, therefore, been poor.

The main difficulty arises from the fact that the spinning mills have to operate on slender profit margins, while experiencing considerable difficulty in marketing current production. With the high cost of raw cotton, rising wages and interest charges, it would have been possible to earn reasonable profits only if sales realisations were satisfactory and available capacity also could be utilised fully. Strangely enough, yarn prices are at the lowest levels since 1965 while raw cotton prices, after decontrol, have not come down appreciably. Since there is continued dependence on imports even with a larger indigenous crop, cotton prices have not come down significantly in spite of the generally downward trend of values for other commodities. Since there has been no increase in demand for cotton textiles, even a decline has been experienced in the past two years, there is keen competition for available business and the decentralised sector particularly is experiencing considerable difficulty in disposing of pure cotton fabrics. The handloom industry is in the doldrums while the output of powerlooms suffered a setback following the levy, last year, of a heavy duty on sized yarn.

What is really important now is a reassessment of the demand for cotton textiles and an investigation into the capabilities of the industry for meeting such a demand. It may be said that the decline in consumption of cotton textiles had been due to the reduced purchasing power of the masses, following a serious shortfall in agricultural production and that demand should hereafter pick up as a result of the bumper harvests in the current season. All the same, it is difficult to say whether the industry's capacity would be fully utilised or whether it would become necessary to put up additional capacity for meeting a growing demand in the coming years. There is reason to feel that the increasing popularity of synthetic fabrics has arrested the growth in demand for cotton textiles. Also, the longer durability of synthetic fabrics has reduced replacement demand to some extent. Since it will take some years before the adjustment to the new conditions can be completed and a continuous rise in demand for fabrics of all kinds established, it may become necessary to devise a scheme on the lines adopted by the jute industry for regulating output.

The composite mills are not having any serious

problem though even here difficulties are being experienced in disposing of coarser fabrics with unattractive designs. There is definitely a surplus of yarn output as will be clear from the fact that, even with a suspension of many shifts, there has been increase in stocks of yarn in the past six months by nearly 30,000 bales to 54,000 bales on account of the mills in the southern states alone. Many units have not been able to operate on a profitable basis as there is no proper relationship between yarn and cotton prices. What is more, with the utilisation of available resources for implementing modernisation and expansion schemes, the increase in stocks has resulted in heavier interest charges besides creating problems in obtaining bank finance. The amount involved in maintaining stocks is well over Rs 10 crores because there has also been a falling off in demand latterly for even higher counts of yarn.

It is not thus surprising that 15 sick mills have given notice of their intention to close down indefinitely from the beginning of the next month while many more are of the opinion that it will be necessary to have block closure for at least a fortnight in order to reduce stocks to normal proportions. It was indicated some time back that there should either be a five-day working week for some months or a complete suspension of operations for a fortnight so that the supply of cloth and yarn can be regulated to conform with demand. These suggestions have not been acceptable to the government as it is feared that there will be a decline in prices for raw cotton while labour will become restive. But there is no escape from a sealing of spindles by some 15 per cent perhaps for the whole of this year as, otherwise, many marginal units will have to go out of production. Any increase in demand in the coming months can be met out of existing stocks. Also, the arrangement will be flexible enough to avoid the creation of shortages and prevent an undesirable rise in prices.

Incentives "in Camera"

IT IS an odd suggestion that the Indian Engineering Association, Calcutta, recently made regarding the grant of export incentives. In a recent brochure, the association "strongly recommended" that these incentives should not be publicised but decided, wherever possible, in consultation with individual units. Otherwise, says the association, it will weaken the exporter's competitive position abroad.

This plea has a point, but it also has implications which need to be studied. If the government is to give incentives in consultation with individual units, what guarantee is there that the decision will be based entirely on merit? How are we to ensure that the incentive given for a particular product is reasonable and that industrial units themselves have not offered any incentives to the officers concerned to expedite favourable decisions?

Moreover, if the incentives are to be given secretly, how is the government going to attract new entrants

It has been suggested in some quarters that consumption may be stimulated through a reduction in excise duties. But this suggestion has not been acceptable to the government. Besides, it is not clear whether consumer resistance has been due to high prices, the lack of purchasing power or a greater preference for blended and synthetic fabrics. The position will become clear during the course of the current year and it should not be difficult for the government or the industry to assess more correctly the pattern and quantum of consumption.

While a regulation of production and suitable changes in manufacturing lines could improve the profitability of working of the marginal units, there cannot be any fresh additions to capacity except where it is needed for balancing purposes or making uneconomic units viable. There will also have to be a methodical programme for modernisation of worn-out machinery. As recommended by the study group constituted by the National Commission on Labour, there should be no hesitation in scrapping old units which cannot function profitably, even after modernisation, though it might be asked how new mills can function on a heavily capitalised basis when old mills cannot. It may perhaps be stated that mills making heavy losses cannot hope to function well even after modernisation. It should, therefore, be examined how and in what manner the rehabilitation programme should be implemented and whether the difficulties involved could be overcome by installing a reduced number of spindles and looms in place of worn-out units. It may also be necessary in some cases to effect mergers. In any case, it would be idle to presume that the textile corporation, which is proposed to be established by the government, will be able to work miracles. There is need for a correct and sympathetic understanding of the various problems so that the orderly functioning of this major industry can be ensured.

into the field of exports? At present, very few manufacturers care to export because they find it more profitable to sell their goods within the country. It is estimated that engineering exports constitute a mere two per cent of the total value of production of engineering items in our country. World engineering exports have been valued at about Rs 12,000 crores per year and the association says that India's current share in this is "disappointingly small". The export of engineering goods in the USA is about 40 per cent of the total national exports, in West Germany 52 per cent, in East Germany 50 per cent, in the United Kingdom 47 per cent, in France 27 per cent and in Italy 30 per cent. The target for our engineering exports is placed at Rs 124 crores for 1970-71. But how is this target going to be reached if the potential exporters are to be kept in the dark about the details of incentive schemes?

Even if the Government of India decides to keep

the incentives secret, it does not necessarily follow that the foreign countries will never come to know about them. It is true, of course, that a few countries do keep some of their export incentives secret. But is it necessary or desirable for us to emulate their practice? After all, export incentives are not going to be, and should not be, permanent features of our fiscal system. Actually the Government of India abolished most of these incentives immediately after the rupee was devalued in June 1966. But, once again, there has been a demand for the restoration of all these incentives which, incidentally, shows how even after the drastic devaluation of the rupee our exports generally continue to be uncompetitive.

Of late, even developed countries such as Japan, the UK and the USA, have openly been discussing the types of incentives to be given for promoting their exports. Last year, the Indian Institute of Foreign Trade also published a book giving details of the export incentives provided by the developed and developing countries. Some of these incentives are contrary to the letter and spirit of the GATT and other international agreements. But even powerful nations are known to disregard these rules quietly when it suits their purpose.

The wise course, therefore, is to confine our export incentives to specific goods and for certain periods; and to give them wide publicity so that as many exporters as possible are able to avail themselves of these facilities and do their best to augment the earnings of foreign exchange. At the same time, the Government of India should attack vigorously those factors that make our goods uncompetitive and thereby make incentives inevitable. Among these factors are the absence of regular sailings and high freight rates. For instance, it is pointed out that the export of engineering goods to Africa, South America and the Middle East is affected because of infrequent sailings. Consignments for Jamaica, it is stated, cannot be sent without transshipment at New Orleans or London, which, in the words of the Indian Engineering Association, "is extremely costly and uneconomical and seriously affects the competitive position of the exporter". Excessive shipping freight is another handicap. For example, an exporter in the United Kingdom pays a lower freight to Australia than that paid from India.

Although the association has favoured secrecy for incentives, it has strongly pleaded for the widest publicity for other aspects of export promotion. It points out that there is a great deal of difficulty in getting Indian specifications accepted even though these are generally based on British standards. Though India is by far the largest manufacturer of ceiling fans, Indian standards, it is stated, have not been accepted abroad even though the standards are superior to those offered by developed countries. Effective publicity is therefore necessary to inform foreign buyers about the

superiority of Indian standards. The association further observes:

"Overseas customers are generally unaware of the technological competence of the Indian exporter and require an inducement to purchase from India. This inducement initially takes the form of prices which sometimes have to be as much as about 10 per cent lower than those of competitors. Sustained, imaginative, intelligent and comprehensive publicity aimed at projecting the image of India as a manufacturer and supplier of a wide range of engineering equipment is essential (even government has conceded that the main drawback for an Indian product is lack of publicity) and this needs to be carried out by government, export promotion organisations, trade associations and individual exporters. The quality control schemes, India's five-year Plans, standards and specifications, industrial progress, etc. should be publicised abroad and it is very necessary to allocate adequate foreign exchange—and to make this available quickly—for publicity purposes".

The association has thus pleaded for effective publicity in foreign countries. But wide publicity within our country is no less essential for creating export consciousness.

Eastern Economist 20 Years Ago

MARCH 26, 1948

In February, 1939, the All-India States People's Conference which met at Ludhiana, recommended that all States with a population of less than 2 millions or revenue of less than 50 lakhs should amalgamate with the neighbouring provinces. If the criterion of population recommended at Ludhiana were to be applied to the States of the Indian Union today, on the basis of the 1941 census, only eight states will qualify for separate existence. The late Political Department was very much less ambitious to start with. In 1943, there was a communique which merged, as a tentative beginning towards the reduction of the number of Indian States, certain States in the Western India States Agency, covering an area of 7,000 square miles with a population of eighty lakhs and revenue of about Rs 70 lakhs. This merger communique was in due course held to be ultra vires. The matter was no doubt set at rest by the India (Attachment of States) Act, 1944. But this was a halting and cautious piece of legislation. Attachment in the first place was contemplated only in the case of States grouped in Division XVII of the First Schedule to the Government of India Act, 1935, as in force on that date, and the experiment was confined to the Western India and Gujarat States Agencies. The Act legislated for the transfer to bigger states, within which the smaller States were to be merged, of powers and jurisdiction in or in relation to the smaller Indian States which could have been exercised by the Crown. The surrender of power secured in these terms was necessarily less complete than has been secured in the covenant the Sourashtra Union. The 1944 Act of Parliament was in fact less a bold step authorising mergers or attachments on any worthwhile scale, than a clarification and extension of the Foreign Jurisdiction Act of 1890.

The Lessons of Recession

THE RECESSION has done more than any other economic development in recent years to establish the vital link between the state of the capital market and the operations of financial institutions. It is not surprising, therefore, that Mr G. L. Mehta, Chairman of the Industrial Credit and Investment Corporation of India Ltd (ICICI), should have lost no time in welcoming the latest budget of the Government of India and the recent reduction in Bank rate. These, he believes, should contribute to a revival of the capital market and improved investment activities. Unless there is a revival of the capital market, it is obvious there can be no sales of shares and debentures by anyone, not excluding such financial institutions as the ICICI, and unless such sales can be freely effected, there can be no large turnover of funds by these institutions in their turn. This not only affects their further investment but their ability to accommodate even the existing clients by way of permission to defer repayment of their loan instalments, necessitated by the reduced operations of their industrial concerns, thanks to the recession. In his statement to the shareholders, the ICICI chairman puts this admirably as follows:

".....the reduced operations of industrial concerns have adversely affected the flow of cash into them and consequently their ability to meet their obligations. Where possible, we have selectively agreed to short period deferment of instalment payments to the corporation. But.....our willingness to cushion our clients from the impact of their reduced cash-flow has, in turn, affected adversely the corporation's own cash generation; and this must necessarily limit the extent to which we can help clients with postponement."

The reduced operations of the existing industries, Mr Mehta noted significantly, has not in all cases been due to the recession, in the sense that demand has gone down from the level existing previously, as, for instance, in the case of cotton textiles and commercial vehicles, but due either to non-existence of the assumed demand or the non-materialisation of the anticipated rate of growth therein, as, for example, in respect of electric meters and cables, wire ropes, figured and wired glass and ferrous castings industries. It would be wrong to term this latter phenomenon as recession; it is more accurately, as Mr Mehta puts it, "faulty planning and miscalculation of demand." The ICICI chief blames not only the Planning Commission for this but also our industrialists who accepted the demand forecast by the planners. Evidently the industrialists did so because the impression was sedulously created that the Planning Commission was infallible, what with all its elaborate paraphernalia. But they, along with the rest of us, must thank the recession for helping to place these imbalances in our economy in their proper setting at last.

We must also thank the recession, as Mr Mehta

observed, for a couple of other realisations, namely cost-consciousness and export-awareness. The recession has made it clear that our costs remain high and tend to restrict the market for our products, wherefore the welcome price-trend of late. In some cases, we are told, this has taken the form of increased discounts to dealers, while, in others, it has led to lower consumer prices. What is important to bear in mind is that not all this price-cutting has led to lower profit-margin as one would normally suppose. It is heartening to be told by no less a person than the ICICI chairman that much of this has been achieved by pruning costs—a desideratum that everybody has been talking about for quite some time past.

Similarly, the recession "has emphasised the need for Indian entrepreneurs being outward-looking, rather than seek their markets only in the domestic economy. It is but natural that, with the loss of buoyancy in home markets, producers should have become conscious of the advantage of having export outlets for their products. Here, again, Mr Mehta discloses something cheerful, when he says that, in many cases, producers have exported almost two-thirds of their output. This reinforces the claim that our entrepreneurs have been



When in Hindoostan do as the Hindoostanis do.

come cost-conscious, for they would, otherwise, not have been able to operate in a competitive context. In any case, it is a highly desirable trend. If, from the producer's point of view, it extends the market for his products, from the nation's point of view, it helps augment the country's exchange earnings.

Reference has been made earlier to reduced operations of existing industries and apparent over-capacity in others. These two features have evidently curbed the enthusiasm of entrepreneurs to undertake new projects in many industries. This is borne out by the reduced disbursements by the ICICI and only a marginal increase in its sanctions during 1967. Possibly, besides the saturation point having already been reached in many lines, the launching of new projects has also been inhibited by the emergence of certain priority sectors, as reflected in the composition of the ICICI's sanctions. The chairman's statement itself makes this point in these terms: "In the last year (1967), industries in which entrepreneurs sought to invest were those which had been neglected in the last ten years and which are now deemed to be priority industries." The main lines in which investment is now concentrated are thus fertilisers, cement and alloy steel. What these may be in the coming years is an interesting speculation and the fourth Plan, when it finally emerges, is sure to indicate the prospective lines. Meanwhile, it is noteworthy that the ICICI has itself been giving some thought to the question. According to Mr Mehta, "while investment opportunities in some industries might appear to be exhausted, there are many lines in which even within the context of the existing industrial structure we need to develop further capacity." In this connection, he cites such obvious examples as newsprint, utilisation of steel slag, alloy and stainless steels, and passenger cars. He also feels there are areas in which future development effort can be directed and instances the case of electronics.

Among all the existing financial institutions, the ICICI has undoubtedly the best record. In fact, it has done more to sustain the capital market than any other financial institution in India. Thus, as at the end of 1967, the corporation's total net sanctions aggregated nearly Rs 200 crores (Rs 199.56 crores to be precise), of which more than half—Rs 110.84 crores—represents foreign currency loans and the rest rupee loans (Rs 39.57 crores) guarantees (Rs 5.45 crores), underwriting (Rs 37.43 crores) or direct subscription (Rs 6.27 crores). Total disbursements made by the ICICI also make impressive reading. At the end of last year (1967), these amounted to Rs 137.86 crores, comprising Rs 81.20 crores in foreign currency loans—more than half, again—Rs 31.06 crores in rupee loans, Rs 19.48 crores in underwriting and Rs 6.12 crores in direct subscription.

Consistent with this record, the ICICI has also been steadily augmenting its resources. In 1965, it

raised its capital from Rs 5 crores to Rs 7 crores; in November 1967, it made its first issue of debentures for Rs 6 crores which was oversubscribed, due, to quote Mr Mehta, "to the helpful support extended to it by the Industrial Development Bank of India, the Life Insurance Corporation of India, the State Bank of India, commercial banks and other companies." While this is good enough, if the corporation has to raise further funds on the market, the corporation's securities must be recognised as trustee investments under the Indian Trusts Act, 1882, as, indeed, the chairman has himself suggested. So much for rupee resources. As for foreign currency resources also, due to the confidence the corporation continues to enjoy with international lending institutions, the ICICI finds itself comfortably situated. Only in September last, it obtained from the World Bank a seventh line of credit of \$25 million, thereby bringing the total lending of the World Bank to the ICICI to \$165 million. Similarly, there is to be a seventh line of credit for DM 7.5 million from the Kreditanstalt für Wiederaufbau also, which takes up the total lending by this West German credit institution to DM 65 million. The total resources available to the corporation now amount to about Rs 290 crores—Rs 58 crores in rupees and the rest in foreign currencies. The results of working of the ICICI in 1967 also are impressive. Not only was the corporation able to improve upon its previous year's gross income from Rs 6.41 crores to Rs 7.86 crores and maintain the dividend to its shareholders at 9 per cent per annum, but it was also in a position to plough back profits to the tune of Rs 77 lakhs (against total dividends of Rs 67.5 lakhs) which is creditable by any standard.

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Some Difficulties in Export Promotion

M. R. MEHER

SO MUCH has been already written on the means of improving our export performance in both traditional and non-traditional goods, on the necessity of more sustained effort to develop sales in foreign markets—which is urgent in the present state of the economy. In this article it is proposed to deal with some of the difficulties faced by exporters, particularly in regard to the infrastructure facilities.

It is recognised that certain basic infrastructure facilities have to be provided by government. These would include not only adequate fast internal railway services but adequate shipping services and port facilities. There is no question that lack of adequate port facilities create difficulties in the export of goods. The facilities in the ports for handling different types of cargo are inadequate, customs formalities take up a great deal of time, and on account of the conditions in the ports, the number of ships calling at our ports as well as the sizes of such ships are restricted.

A leading Indian company manufacturing oil engines has found that it takes less time to ship goods from London to Bangkok than from Bombay to Bangkok and that it takes less than two weeks for the engines to reach the United States from Rotterdam, as compared to eight or 10 weeks from Bombay. It has therefore set up an office in Rotterdam, where the engines manufactured by the company are warehoused. This arrangement, though expensive, has been found to be paying.

Shippers have often complained about lack of shipping space as well as direct port facilities. In particular, shipping facilities to destinations in the Near East and to Africa are very costly. For example, ships of the conference lines do not have sailings from Indian ports to Saudi Arabia, Libya etc. Individual exporters have not sufficient consignments to justify chartering ships. So it takes a long time to despatch the goods to such destinations. If, on the other hand, the goods are sent by longer routes, involving transshipment at foreign ports, this is also an expensive business.

Unfavourable Rates

The freight rates fixed by the international lines are often unfavourable to Indian exports. For example, freight on exports of steel by the Tata Iron & Steel Co. Ltd to Australia is higher than the freight payable by an exporter from the UK to Australia, in spite of the much longer distance involved. To give another example, some of the Latin American countries provide a good market for Indian wire ropes, but the freight rates to those countries absorb two-fifths of the c.i.f. realisation, thus reducing the earnings of exporters to an uneconomic level. It might also be mentioned that after the closure of the Suez Canal the freight rates have been increased even to the east African countries, transport to which does not involve going through the Suez Canal.

Thus, due to the tariff systems of conference lines which most Indian shipping lines including the public sector shipping lines follow, Indian exporters have to bear high freight, which proves particularly heavy in the case of cargo of relatively high weight and low value. The effect of all these factors is to raise the c.i.f. prices of a number of Indian goods above the international level, even though the f.o.b. prices may be competitive.

High freight rates from Indian ports are in fact due not only to specific rates being fixed at a high level, but because specific rates have not been fixed for certain commodities, and

they are charged at general cargo rate. Another reason for exporting being costly is that freight is charged on measurement rather than weight. The Freight Investigation Bureau and international liner conferences should take steps to see if these practices could be altered where necessary. Another way in which the problem might be tackled is for the shipping companies of the south-east Asian countries to work out common liner arrangements, synchronised schedules of callings at different ports and regulated freight rates and routes. It is hardly necessary to state that exports would be assisted if the size of Indian shipping tonnage is increased and more of tramp shipping undertaken. As a short term measure, it has been suggested at some seminars that government should give some kind of subsidy to reduce the cost of freight, but it appears to this writer that cash assistance by the government to promote exports are more suitable in other forms.

Poor Turn-Round

To some extent the high costs of freight are due to the poor turn-round of ships and the paucity of adequate facilities at the Indian ports. For instance the port of Bombay is regularly affected by strikes. There have been strikes not only by the lower categories of staff but on occasions even by higher categories of staff such as berthing masters, pilot officers, etc. Every time there is a strike not only do the ships remain idle and incur heavy loss but there is delay in shipment of cargo. In the first seven months of 1967 there were as many as 25 strikes, some even on issues which are pending before the wage board for dock workers. It may seem a paradox, but there is reason to believe that the elaborate machinery set up by the state for the settlement of industrial disputes as well as the ready intervention by government authorities when there is a strike or threatened strike has the effect of promoting resort to strikes. Organised labour should not be given the choice between resorting to strike and having the dispute referred to arbitration or adjudication, whichever course is found, for the time being, to be more paying. What is needed, if the frequency of the weapon of strike is to be reduced and the weapon discouraged, is not ready intervention by government authorities at every stage, but to leave matters more to be resolved by collective bargaining, without any undue pressure on the employer to concede labour demands, and this applies equally to the public and to the private sector.

On the point of delays in shipping goods for export, it may be mentioned that the poor turn-round of ships in Indian ports is largely due to inadequate berthing capacity and lack of modern cargo handling equipment. Cargo ships have to wait sometimes for 15 to 25 days. There is often congestion not only in the docks but in sheds also. There are also delays due to lack of adequate dredging and deep water berths and inadequate lighter capacity. Exports of heavy products like iron and steel, manganese, etc., depend on the capacity and betterment of port facilities. Poor ship handling methods add to the costs. More mechanisation of loading facilities at the ports would be useful in assisting export of heavy goods. Other suggestions that have been made for improvement of facilities, particularly at the minor ports, which deserve consideration are the working out of methods of improving the handling capacity of open anchorages on the basis of deep water terminals and provision of small standardised diesel engine coasters of shallow draft to take advantage of tidal rise. Many of the iron and steel products also face difficulties of internal railway transport under the existing arrangements and regulations. For example, in the case of steel tubes the types of wagons available are not of adequate length to facilitate

proper stacking. Again wagon charges are assessed on the basis of certain minimum tonnages, but the manufacturers are not able to make full use of the wagons and have, therefore, to pay relatively heavier transport costs on railways.

Before concluding, reference may be made to the suggestion made by Mr G. L. Mehta, at the seminar on export promotion held by the ICICI and also at the recent Indo-German conference on export promotion at Bombay, that an export-

import bank should be established, as in the USA and Japan, so that export credits could be given to exporters on an organised basis. It appears to this writer that setting up such a bank would require an initial investment of some crores of rupees which in the present state of government finances would not be justified. Moreover there may not be sufficient work for such a bank, at any rate for some considerable time. The task could well be assigned to one of the existing agencies such as the Industrial Development Bank of India.

Copper Utilisation in India

A Special Correspondent

THE SYMPOSIA on "Effective Utilisation of Copper", held in Bombay and Calcutta last month, were of particular significance to the metallurgical and other copper-using industries in the country. Undoubtedly, it provided an opportunity to the Indian industry to discuss various aspects of copper utilisation with the visiting foreign experts who were really experts in their respective fields. The negligible domestic production of copper in the country coupled with ever-recurring shortages following the tight foreign exchange situation have made effective utilisation of the metal more urgent than import substitution. Mr F. A. Jasdanwalla, a former president of the Indian Non-Ferrous Metals Manufacturers' Association, rightly stressed the point in his address in Bombay that copper could not be substituted entirely by any product in some areas, because of its superior properties and, therefore, what was more urgent was the effective use of the available metal.

In his welcome speech in the Calcutta session, Dr Dara P. Antia admitted the difficulties involved in defining "effective utilisation" in precise terms. Even so, in the present Indian context, it could mean "discarding the use for non-essential purposes and encouraging the use of copper in fields where it is absolutely essential such as defence, electronics, etc.". This will naturally imply that the metal should be used only for such applications as could yield maximum benefit. It has been suggested that this objective can be achieved by (i) revising the prescribed standards of scarce virgin metals, such as copper, and, their alloy with a view to minimising the use of virgin metals (like copper), (ii) promoting import substitution wherever technologically and economically it is feasible, and (iii) efficiently organising the reclamation of metals from metallic wastes such as slag, dross etc.

Unfortunately, no serious effort has been made in this country so far to conserve our scarce metal resources notwithstanding acute shortage of these metals leading to growing idle capacity in some industries. A case in point is the utter neglect of the sources of secondary metal. Therefore, Dr Antia did well to suggest that organised attempt for recovering scraps and other metallic wastes and dissemination of knowledge pertaining to the latest developments in sorting, melting and refining techniques should no longer be delayed. The colossal wastage of our limited resources owing to the non-collection of scraps and metallic residues in an organised and efficient manner in some of the public sector undertakings had been pointed out by many. A former railway official says. "Metallics are recovered in a few melting shops only by the usual physical methods of separation such as crushing and passing them over Wilfrey separation tables; but this does not go too far. Attempts should also be made to recover metals from oxides, a form in which they exist in various types of wastes. In many of the workshops and foundries, including those of the Indian Railways and the Posts & Telegraphs Department, these are thrown away and dumped in pits". He cites the instance that in one of the railway yards alone about 300 tonnes of oxide wastes had accumulated in a short period.

At the same time, owing to the acute scarcity of supplies, copper scrap prices soared so high in the Calcutta and Bombay

metal markets a couple of years ago that they ruled around the virgin metal prices. This situation lured many unscrupulous dealers to plunder the field since there were few restrictions even when the Scarce Industrial Materials Control Order was in force following the Indo-Pakistan conflict in 1965 till the devaluation of the rupee in 1966. Paradoxically enough, although all imports of copper had been frozen and there was no appreciable rise in domestic output either, many copper-using units managed to carry on their operations by depending on the secondary metal sources. Though it is difficult to estimate precisely the tonnage that came from this source, knowledgeable sources believe that it was substantial and that it helped the industry to tide over the crisis. Yet the government felt little need to intervene by setting up an organisation for regulating the collection and disposal of scraps and residues so that imports of virgin metal could be progressively reduced. Dr Antia's reference to the fact that 40 per cent of the total copper consumption in the US came in the form of secondary metal is not wholly irrelevant. Actually, the non-ferrous scrap dealers perform a vital economic function in that country. The trade is highly organised with an annual turnover of well over \$1.5 billion, commanding a network of yards, warehouses and millions of dollars of investment. The secondary sources are considered "mines above the ground". Ironically, in India while the mines above the ground are neglected, the government has embarked on huge aerial survey schemes for locating non-ferrous ore deposits. None would suggest that "Operation Hardrock" should be scrapped, but why not tap the less expensive "mines" at the same time?

Right Perspective Required

Another question which requires to be answered is to what extent the government is justified in making large tonnages of expensive copper available to the so-called small-scale, handicrafts and allied industries under the pretext that they earn foreign exchange. Are the export returns commensurate with the foreign exchange expenditure and the indeterminable wastage in the shape of rejects and scraps? Here, the government's attitude is purely political. Similarly, in the small-scale sector, unless efficient production techniques are employed, considerable wastage of expensive imported raw materials cannot be avoided. Besides, these units often divert their raw material allocations to the open market and make more money than what they would do by selling the end-products. Hence it is important that the government develops the right perspective while formulating its policy for allocating scarce metals to ensure their effective utilisation to the best advantage of the industry and the country.

As was stated by the visiting experts at the symposium in Calcutta, some of the outstanding characteristics of copper and its alloys will make total substitution of copper by other materials impossible. If aluminium had taken the place of copper as conductor materials in certain sizes of cables, it is a step in technological progress to which no country, least of all India, could have been indifferent.

The papers read at the symposium dealing with the melting practices in copper alloys for foundry purposes and selec-

tion, design and utilisation of copper alloy castings will undoubtedly be of particular value to the non-ferrous founders in the country. Especially important were the suggestions given for cost saving measures by adopting suitable changes in the design of some castings. It may be mentioned here that the foundry practices in some units are stated to be out-dated and inefficient. If efficient methods of production are employed, there is no reason why India cannot enter the export market for non-ferrous semis and finished products.

A member of the International Copper Development Council team told the gathering in Calcutta that copper producers believe that a ton of copper used anywhere in the world deserves the care and collective help of all members of the industry. The Indian Copper Information Centre, set up by the ICDC which is a producer-financed body, has performed

useful service to the copper-based industries in the country by organising the symposia. In view of the growing importance of copper in agricultural, chemical and other industries, the ICIC could have devoted some attention to these aspects as well. It may be suggested that there is negligible consumption in these uses in India, but no data is available in this respect.

It is hoped that the ICIC will make a beginning in the collection of vital statistics relating to the scrap arisings, secondary copper consumption, etc, so that, apart from providing technical service to the metallurgical industries in India, it becomes a storehouse of information on copper statistics as far as India is concerned. It should also organise lecture tours in key copper and brass consuming centres in different parts of the country if the objectives of the symposia are to be achieved in the long run.

Regulated Markets in Mysore State

Dr J. K. IRANI

THE SCHEME of regulated markets is a unique system of marketing of agricultural produce peculiar only to developing countries such as India. They have been set up only in a few states, apply only to a limited number of markets in a state, cover only a limited number of commodities in a market, and therefore confer only limited advantages. In developed countries, regulated markets are quite unnecessary; in those countries, besides government legislation in certain specified fields, either government-appointed semi-independent commodity commissions or corporations for important commodities are set up under various Acts or producer-controlled boards are set up for various commodities to regulate and develop marketing. Co-operative marketing has also made good progress in some developed countries.

In India, sale in the village is the most convenient and least troublesome method of sale to the farmer, and nearly 65 per cent of the marketable surplus of all agricultural crops is disposed of in the village itself. If the farmer comes to the assembling centre for sale, then, in the absence of regulated markets, he is liable to be duped by commission agents or brokers or traders. Sale through the co-operative society has not been possible, because of the failure of the co-operative movement. On the other hand, methods of marketing in advanced countries like the establishment of producer-controlled marketing boards are not possible in our country. Firstly, marketing reforms in India involve mainly regulation of market practices in wholesale and retail markets, and it is doubtful whether marketing boards would be effective. Secondly, it is difficult to organise boards if the producers are small and scattered. Thirdly, market boards assume capacity for self-control and willingness to work together in the larger interests of the community—qualities similar to those needed for the success of co-operative marketing which has failed in this country.

The system of regulated markets is therefore a prop to the marketing of agricultural produce in India as an alternative to the methods of marketing adopted in advanced countries. Although the different states which have set up regulated markets have got their own legislation for the establishment and control of such markets, the provisions of the various state Acts are more or less uniform.

In all these Acts the trader or broker is not taken as the producer at all, even though he may be engaged in producing agricultural goods. The state government has first to declare the market concerned as a "notified market area", and when this has been done, no person is allowed to set up or run a place of purchase or sale for the produce except under a licence. A producer is allowed to sell his goods outside a market area,

but he will lose the benefits of the regulated markets. For each market area, there is a market committee to enforce the provisions of the Act. Each Act lays down in general the constitution of the market committee, the maximum and minimum number of persons in it, and representation to the different groups, viz., growers, traders, co-operative societies, local bodies and government nominees. Every market committee is a corporate body with its own seal. It can enter into contracts, can levy fees on produce brought within its area, issue licences, weights and measures, settle disputes by arbitration, announce prices, prevent adulteration and carry out propaganda for agriculturists to bring their produce within the market. All charges are fixed and regularised, and no deductions are permissible for religious and charitable purposes unless certified by the market committee. All traders, brokers, and weighmen are licensed, and no broker is allowed to act both for the buyer and the seller. Cotton traders and weighmen have to keep the necessary books in which details regarding sales, weights, prices, etc., have to be stated. The main income of the market committee is from cesses and licences. The market committee can create a market fund which can be used for certain beneficial purposes such as construction of roads and shelters, improvements of crops, etc.

Many Advantages

The advantages of regulated markets to the producers are many. The producers are brought in touch with substantial buyers; no unauthorised deductions are permitted; disputes are settled by arbitration; the farmers get prompt payment; standard forms of contracts are encouraged so as to lessen the possibility of disputes; goods are standardised, and proper prices are given according to grades; true weights are used; the farmers can get information regarding arrival of stocks, prices, etc, from the market committee. Finally, the regulated markets provide conveniences to market users such as sheds, water, space for carts and storage facilities. Thus the cultivator gets a fair price for his goods, and is not at the mercy of the buyer.

In spite of the advantages of regulated markets, only a few are well-managed, well-planned and laid-out, and the majority of them have failed to benefit the farmer. The reasons are as follows:

- (i) There is a poor percentage of arrivals in the regulated markets as compared to the total arrivals in the whole market, thus showing that regulated markets have failed to attract the farmers to come and sell their produce in their market yards. Most of them have inadequate number of godowns, and inadequate space in hotel-cum-guest-houses where the farmers can put up for the night; consequently most

of them store their goods in the godowns of their commission agents with whom they stay for a day. The produce lies uncovered on the ground, without stalls, and the drainage facilities are poor.

- (ii) A fair price is not paid to the farmer, nor does he get a premium for better varieties; this is due to the fact that in most of the regulated markets, grading facilities are inadequate, and the grading that exists is commercial grading, i.e., grading by observation, and not scientific grading.
- (iii) In most of the regulated market, sales are conducted by public auction; although this method of sale is better than the "under cover" method, its success is dependent on certain conditions, viz., a large part of the arrivals should be available in the market, the arrivals must be regular, and the attendance at auctions must be large. These conditions are generally not fulfilled with the result that after a short time, most of the bidders come to know each other well, and they combine for mutual advantage, thus depriving the farmer of a fair price.
- (iv) The market committees of most regulated markets are generally dominated by representatives of merchants who try to manage the markets in their own interests.
- (v) There are even instances of regulated markets where a few traders corner the goods, and sell in cities outside the state at a high price, thus depriving the farmer of a fair share of the final price paid by the consumer.

The Mysore Agricultural Produce Markets Act of 1939 is to be repealed, and a new Act, viz., the Mysore Agricultural Produce Marketing (Regulation) Act, 1966, is to be brought into force. The new Act envisages a drastic change in the whole concept and purpose of regulated markets. It has many wholesome provisions, the chief of which are as follows:

- (i) Majority representation is given to producers in the market committee, whose number is seven out of a total of 15 members.
- (ii) The chairman and the vice-chairman of the market committee must be producers.
- (iii) The honorarium payable to the chairman is linked to receipts, being not more than 5 per cent of the gross receipts of market and licence fees during the preceding market year, subject to a maximum of Rs 250 per month.
- (iv) The chief executives of the regulated market, viz., the secretary, the assistant secretary, officers of the accounts and audit department, and officers of the engineering department will be government employees, and the regulated market will contribute to the consolidated funds of the state a certain percentage of its gross receipts by way of market and licence fees, as determined by the chief marketing officer.
- (v) A state agricultural marketing board is to be established consisting of the minister of the state in charge of marketing as ex-officio chairman, and one person from each revenue district of the state who must be a chairman of a market committee in the district elected by an electorate consisting of the chairmen of all market committees in such districts. However, every market committee has to contribute towards the expenses of the state agricultural marketing board every month, a sum equal to five per cent of its gross receipts by way of market and licence fees during the previous month.
- (vi) A state marketing service may also be established.

- (vii) Direct sales in the market yard without the employment of a commission agent are to be encouraged by the provision of adequate space and by helping the farmer to prepare his invoices and bills.
- (viii) The state government is empowered to establish special commodity markets and separate market committees for commodities like cattle, sheep, fish, fruits, etc., provided conditions warrant the establishment of such markets.
- (ix) There is a provision for appointing a village panchayat having jurisdiction within the market area, as the agent of the market committee in the sub-market to be established within its jurisdiction; however, an amount not exceeding 75 per cent of the market fees collected by the panchayat has to be retained by the panchayat, and the balance to be paid to the market committee.
- (x) The interests of commission agents who sell on credit to licensed traders, and the interests of producers who entrust their goods to commission agents are both protected. No trader can buy goods on credit from any commission agent unless he gives cash security or bank guarantee, and no licence can be given to a commission agent unless he has deposited with the market committee a cash security or a bank guarantee of at least Rs 500. The extent of the indebtedness in each of the cases is also laid down.
- (xi) The market committee is empowered to maintain market stability by prevention of over-trading, thus decreasing the local risk attendant upon the business of selling and buying notified agricultural produce.
- (xii) The market committee is empowered to inspect accounts, seize books and documents and ask for periodical returns.
- (xiii) In order to augment its resources, the market committee can obtain loans from the state government or can issue debentures on the security of property and fees with the previous sanction of the state government.

The Act is definitely an improvement on the Mysore Agricultural Produce Markets Act, 1939. Since the chairman and the vice-chairman of the market committee will be both producers, they will be able to safeguard effectively the interests of the cultivators; further, since the honorarium payable to the chairman is linked to receipts by way of market and licence fees, this will give him an incentive to attract more agricultural produce to the market, although it is doubtful to what extent the incentive will be effective in the case of a person who draws only an honorarium and not a full-time salary.

The Act provides that the chief executives of the regulated market such as the secretary, and the officers of the accounts and engineering departments should be government officers, and this provision therefore solves the administrative problem of the regulated markets which are financially not strong to get the services of the best staff. Although the regulated market has to contribute to the consolidated funds of the state, this payment is nothing compared to the best services it will get. Incidentally it also implies stricter control by government over the regulated market, but this feature is to be welcomed because the co-operative movement in India is weak, and the regulated market is therefore the only way in which the farmers can get a good price for their produce, provided of course it is able to attract the farmers to bring their produce to the market.

The constitution of the state agriculture marketing board is also to be welcomed, because its members, except the chairman, will be all chairmen of various regulated markets, and therefore effective co-ordination between the various regulated

markets in the state can be brought about. It will be like an apex regulated market co-ordinating the activities of the various regulated markets.

The provision for the constitution of a state marketing service is also to be welcomed, and it should be constituted as early as possible. Its most important function should be the collection, interpretation and dissemination of market information regarding the supply, demand, quality, movement and prices of almost all agricultural products by issuing daily, weekly, monthly, annual and special reports. It is highly desirable that it should have a network of field offices which should be connected by wire facilities. However the utility of a state marketing service would be doubtful when it is not a part of an all-India organisation. It is always possible that produce from a regulated market may go outside a state in which the state marketing service has no jurisdiction and control.

The provision regarding direct sales in the market yard without the employment of a commission agent is quite good, and the market committee must reserve an area for direct sale and give the producer all administrative help. This would encourage the farmer to bring his produce to the regulated market and thus save all the expenses in connection with assembling, and charges of middlemen.

Integrated Approach

Although the provision regarding the appointment of a village panchayat as the agent of the market committee within the market area is voluntary, it is desirable that it should be enforced as early as possible. This would permit an integrated approach to the whole function of marketing, as marketing cannot be separate from production, improved seeds, irrigation, etc., which brings in the panchayat as an agency of village development.

It is not possible to agree with government when it empowers the market committee to maintain market stability by prevention of over-trading through deposits of cash security or bank guarantee from traders and commission agents. First of all, the flow of agricultural produce in the regulated market is too poor to constitute a danger of over-trading. Secondly, even if the flow is substantial, the assurance of cash security or bank guarantee will not solve the problem, when in the produce exchanges where business is huge, even "margins" have not been successful. Lastly, it is not the function of a market committee to maintain market stability; not even the state agricultural marketing board can do it; adjustment of supply and demand can only be done at the national level, the state agricultural marketing board being a part of an all-India organisation.

The authority given to the market committee to inspect accounts and seize books and documents is a drastic power, and would necessitate the appointment of bold and qualified staff. The provision permitting market committees to issue debentures with the permission of the state government in order to augment their resources is a sound one. Most of the regulated markets require extensive capital works in the shape of well-planned stalls, drainage facilities, water facilities, space for carts, roads, storage facilities and the construction of a hotel-cum-guest-house with sufficient number of rooms. Since under the present scheme of social control of banks, banks are willing to lend to agriculture, they should be requested to subscribe to the debentures issued by market committees; in the alternative, the state agricultural marketing board can issue debentures and distribute them to the market committees.

Lastly, the Act should frame rules for a quick change-over from the auction system to the tender system, if the former system tends to exploit the farmer. Commercial grading must be abolished, and scientific grading must be made compulsory.

From a study of the main provisions of the new Act, it is now clear that the tendency behind it is to have an integrated approach towards marketing by associating the panchayats

as agents of the market committee as well as to retain the powers of control by government through the appointment of top officials. All these trends are welcome, but the question is the future of the co-operative marketing, which is the ideal method of marketing agricultural goods. The marketing of agricultural produce would be once again state-sponsored, like the growth of the co-operative movement at present.

An ideal co-operative marketing organisation must encourage the spirit of self-help and self-reliance among the farmer, and it is highly necessary that the present Act, with its stress on state help must encourage the farmers to come within the co-operative fold. Under the old Act, representation was given to co-operative societies on the market committees, but they were dominated by traders, and neither the farmers nor the co-operative societies emerged successful. Under the new Act, out of 15 members of the market committee, seven have to be representatives of agriculturists, but only one of the taluk marketing co-operative society and one of the producers' society in the market area, while both the chairman and the vice-chairman must be representatives of co-operative societies, and it is difficult to imagine what they will be able to do to influence the policy of co-operative marketing.

Further the very efficacy of regulated markets controlling at a state level the marketing of agricultural goods can be questioned. Regulated markets having a small jurisdiction within the notified market area, cannot prevent the sale of goods to representatives of big merchants who transport the goods to a city to be sold at prohibitive prices, the farmer thus getting a small percentage of the final price paid by the consumer. The state cannot control the price paid by the merchant outside the state. This can only be done by making regulated markets a central subject with a central Act, a central agricultural marketing board and a central marketing service with branches of each at the state level. Then only the purpose of efficient marketing will be fulfilled enabling the farmer not only to get a better price for his goods, but also a large percentage of the final price paid by the consumer. Further large representation must be given to co-operative societies at each level, so that they can play a part in strengthening the primary societies at the village level, and thus become more self-reliant.



"It beats me why you should squeeze us real elders out of the Rajya Sabha. A fire-eating young socialist must surely fight for a seat in the Lok Sabha."

FROM THE CAPITAL'S CUPBOARD

Phosphatic Fertilisers and Sulphur

IN VIEW of the growing global shortage of elemental sulphur and the estimated growth in our demand for phosphatic fertilisers from about 500,000 tonnes at present to nearly two million tonnes in 1975-76, five projects—Madras, Kota, Trombay, Haldia and Mangalore—have been planned to produce phosphatic fertilisers without using sulphur. Besides, several other steps have been initiated to meet the situation. These are: (i) use of pyrites; (ii) exploring the possibilities of importing sulphur, phosphorus or phosphoric acid from west Asia and the United Arab Republic; and (iii) manufacture of phosphorus indigenously through the electro-thermal route.

With a view to using Amjhore pyrites (in the initial stages imported pyrites may be used) in place of sulphur for the production of phosphatic fertilisers, a triple super-phosphate plant is being set up at Sindri as a part of the rationalisation scheme of this project, at an estimated cost of Rs 23 crores (foreign exchange component Rs 6 crores). The Fertiliser Corporation of India (FCI) has been asked to prepare a feasibility study for the establishment of another triple super-phosphate plant at Durgapur, also to be based on Amjhore pyrites. The two plants together are expected to obviate imports of sulphur to the extent of about 280,000 tonnes annually. Their production of P₂O₅ will be nearly 312,000 tonnes.

As regards importing sulphur, phosphorus or phosphoric acid from west Asia and the UAR, certain developments in Iran and the UAR are being closely followed. Iran is said to be installing a 1,000 tonnes per day ammonia plant from which will be recovered daily nearly 1,500 tonnes of sulphur. A part of this sulphur is proposed to be utilized for producing phosphoric acid locally. The rest will be available for export. The UAR is expected to shortly go in for the setting up, under the recently concluded India-UAR-Yugoslavia Tripartite Agreement on Trade and Economic Co-operation, an industrial venture for manufacturing phosphorus/phosphoric acid by the electro-thermal route, utilising its abundant low-grade rock phosphate resources and bulk power from the Aswan Dam. The possibility of entering into long-term contracts for the purchase of sulphur, phosphorus or phosphoric acid from both Iran and the UAR are being investigated. Kuwait, it may be recalled, will be supplying substantial quantities of sulphur to the Dharamsi Morarji project which was cleared by the government a few weeks ago.

So far as production of phosphorus by the electro-thermal process indigenously is concerned, a proposal to this effect is being considered as part of the second phase of the Cochin fertiliser project. Cheap power is expected to be available for this scheme from the state electricity board. There is under consideration, of course in a preliminary form, another proposal for the establishment of a phosphorus plant at Mangalore.

ENGINEERING GOODS: EXPORTS LOOK UP

Encouraged by the improvement in the exports of engineering goods during 1967-68, the Engineering Export Promotion Council, it is understood, has set ambitious targets for 1968-69 and 1970-71. During the next financial year it is aiming at exporting goods worth nearly Rs 62 crores. The target for the subsequent year has been set at Rs 109 crores (excluding wagon exports to the Soviet Union on which an understanding has been reached only a few weeks ago). In 1967-68, the exports of engineering goods have been estimated around Rs 35 crores, as against Rs 29.76 crores in 1966-67 and Rs 29.77 crores in 1965-66 (calculated at the post-devaluation par value of the rupee).

Nearly 40 per cent of the expected exports of engineering goods in 1970-71 are anticipated to be effected in four lines: (i) railway track material, wagons and coaches; (ii) M. S.

pipes, tubes and fittings; (iii) wire and wire products; and (iv) electric wires and cables. Together, these four categories of products are expected to earn in 1970-71 foreign exchange worth Rs 45 crores—Rs 10 crores more than the entire export earnings from engineering goods in 1967-68. Among the other major engineering items the export potential of which is considered large are included automobiles and auto parts; machine tools and metal working machinery; structural fabrications; tea machinery; electric control gear, switchgear, transformers, motor starters etc.; transmission line towers and poles; bicycles and parts; diesel engines and parts; and hand-tools and small tools. The exports of these items are expected to multiply in the next two years by three to 10 times. The exports of various other engineering goods are also anticipated to go up, but only moderately. These include electric fans, data processing machines, batteries (dry and storage) and mechanical pumps. A number of new items such as electrodes and welding equipment, air compressors, air-conditioners, refrigerators and water coolers, BOT cranes, steel forgings and construction machinery are expected to be exported in sizable quantities from next year onwards.

In 1966-67, the major engineering items exported (with the export value in crores of rupees given in brackets) were as follows: MS Pipes, tubes and fittings (4.29); electric fans and parts (1.50); automobiles and parts (1.47); batteries (dry and storage) and components (1.38); bicycles and parts (1.32); diesel engines and parts (1.22); electric wires and cables (1.12); CI Products (1.06); hand-tools and small tools (0.93); railway coaches and wagons (0.87); telephone equipment (0.74); textile and tea machinery (0.69); wire and wire products (0.68); machine tools (0.60); transmission line towers and poles (0.55); sewing machines and parts (0.52); electric accessories and appliances (0.42); data processing machines (0.40); mechanical pumps (0.39); gramophone records (0.39); structural fabrications (0.29); EPNS ware (0.28); electric control gear, switchgear, transformers and motors (0.26). The destination of these exports was: south-east Asia (39 per cent), (ii) west Asia (24 per cent), (iii) Africa (24 per cent), east Europe (14 per cent), west Europe (6 per cent), America (7 per cent), and others (2 per cent).

END OF THE RECESSION?

The latest official assessment of the recession in the engineering industry reveals that since the latter half of last year, there has been some improvement in the sectors producing machinery for the manufacture or processing of such consumer goods as sugar, cement, synthetic fabrics, tea, oil, rice, flour and pulses. The production of machinery for the manufacture of these consumer goods in 1967, in lakhs of rupees, is estimated as follows (the figures for 1966 are given in brackets). Sugar mill machinery 970 (372.05); cement mill machinery 450 (375.76); viscose rayon plant and equipment 114 (150); tea machinery 132 (110); oil mill, rice, flour and pulses mill machinery 100 (94).

MANGALORE PORT

In view of the report of a team of two officers—one from the Planning Commission and the other from the Government of Mysore—that the traffic through the Mangalore harbour would go up to 2.96 million tonnes by 1971-72, Mangalore is being developed as an all-weather 30 feet draft port. It will have three alongside berths—one for iron ore, maganese ore and coal, the second for general cargo and the third for raw material imports for the fertiliser factory proposed to be set up here. In addition, there will be two mooring berths. With a view to catering to the increase in traffic by 1975-76, an additional alongside berth with necessary facilities will be built after 1970-71. The entire project is estimated to cost Rs 24.3 crores.

FROM THE PRESS GALLERY

Poonacha Announces Minor Concessions

Our Parliamentary Correspondent

NEW DELHI: Friday

THE COMPLETION of the Rajya Sabha deliberations on the union budget and the adoption of the demands for grants of the Railway Ministry by the Lok Sabha were the highlights of the proceedings of Parliament this week.

The Rajya Sabha debate on the union budget more or less followed the pattern of the Lok Sabha discussion, the main targets of attack being (i) the resort to deficit financing, (ii) the provision for the Bokaro steel plant, (iii) the need to bring down administrative expenditure, and (iv) the increases proposed in posts and telegraphs tariffs. Several members reiterated the need for achieving self-sufficiency in foodgrains and dispensing with PL 480 imports at the earliest, but the suggestions they put forth for attaining this end did not contain anything new. Stress was laid on going in for minor and medium irrigation works and increased application of scientific knowledge and technology to our farming. The need for having a national food budget was emphasised by not a few. Several members pleaded for augmenting the financial resources of the states; they thought that a review of the relevant provisions of the Constitution was called for.

The reply of the Deputy Prime Minister and Minister for Finance, Mr Morarji Desai, to this debate also contained hardly anything new. He repudiated the allegation that he had ever promised that he would not resort to deficit financing. In justification of deficit financing he pointed out that it had to be indulged in so that the economy did not recede and the most needed programmes of development were not held up. Mr Desai dismissed the suggestion that PL 480 assistance had been detrimental to the country's efforts for attaining self-sufficiency in food. Food production, he pointed out, had risen from 55 million tonnes to 95 million tonnes during the past 15 years. The Finance Minister charged the opposition with creating conditions which hampered production. He alleged that several opposition parties were fomenting disruption. In support of this contention, he referred to how the sanctity of the legislatures in Punjab, Bihar and West Bengal had not been maintained and the Speakers had been made to do things that had never happened before.

Priority for Agriculture

Intervening earlier in this debate, the Deputy Minister for Finance, Mr J. N. Pahadia, expressed the view that the opposition members who had criticised the budget had not taken into account the difficult period through which the country was passing, following two successive droughts and recession. He denied the charge that agriculture was being neglected and pointed out that during the last 10 years, more and more fertilizers had been imported and new fertilizer factories set up with a view to modernising agriculture. He also did not agree with the opposition's criticism that co-operative societies had not been allowed to play their proper role. He revealed that nearly Rs 400 crores had been distributed to farmers through co-operative societies last year. This year, a provision had been made for Rs 650 crores for his purpose. Referring to the criticism that no steps had been taken to reduce administrative expenditure, Mr Pahadia observed that there had been a reduction of six to seven per cent in this expenditure since 1963-64. Mr Pahadia deplored the move of some state governments to abolish land revenue. He also voiced concern at the disturbances in several parts of the country. These disturbances, he said, had affected industrial production and, if continued, they could affect agricultural output as well.

During the debate on the demands for grants of the Ministry of Railways, several members called for the constitu-

tion of a high-powered inquiry commission to go into the reasons for the recurring losses of the railways. The increase in the fares for third class passengers and sleeper coaches as well as the enhancement of surcharge on freight rates came in for vehement criticism. The continuance of the saloon and special carriage facilities for railway officials was objected to by many. Another highlight of the debate was a large number of pleas for converting metre gauge lines into broad gauge lines and for opening new lines in the interest of developing backward areas and facilitating movement of agricultural and mineral output. The recent Hubli disaster prompted many members to ask for the resignation of the Railway Minister, Mr C. M. Poonacha.

Railway Operation Defended

Winding up the debate, Mr Poonacha asserted that there was nothing wrong with the working of the railways or their finances. He, however, agreed that the railway operations should be constantly kept under review. Referring to the plea for the constitution of a high-powered commission to go into railway finances, Mr Poonacha pointed out that a high-level committee, with Dr H. N. Kunzru as its chairman, had already been set up by the Administrative Reforms Commission. It would go in detail into all the aspects of the working of the railways. Announcing the concessions he had hinted at while replying to the general debate on the railway budget a few days ago, Mr Poonacha stated that the levy of four rupees per night for third class sleeper accommodation would be only for the first night. For subsequent nights the levy will be only one rupee per night. The concession, however, would apply to only 3-tier berths and not to 2-tier berths. He also announced restoration of travel concessions that have been withdrawn on such categories of railway travellers as artists and nurses. Mr Poonacha declined to entertain any suggestion for the abolition of the Railway Board.

In its report on the Ministry of Petroleum and Chemicals, presented to Parliament this week, the Estimates Committee has urged that the setting up of a petrochemical corporation (on which a decision in principle is said to have already been taken by the government) should be expedited so that the work of organising petrochemical complexes in the public sector can be undertaken systematically and in right earnest. The committee has regretted that the Gujarat petrochemical complex, which had been approved as a public sector venture as long back as December 1963, has not made satisfactory progress. In contrast, it points out that a number of units of the Bombay complex in the private sector, which had been approved about the same time as the Gujarat scheme, have been commissioned and the others are about to go on stream by the middle of this year.

With a view to reducing the dependence on foreign technicians, the committee has recommended that arrangements should be made at an early date for providing training to the senior personnel of the petrochemical complexes. The lack of integrated planning on the part of the government in the field of petroleum has been criticised by the committee. It points out that the government has been concerned with only the setting up of refineries to meet the demand of petroleum products; it has not simultaneously considered the growth of the petrochemical industry in which vast developments are taking place in the developed countries. As a result, the committee has noted, the naphtha produced in the refineries was rendered surplus and nearly 200,000 tonnes of it were exported every year between 1957 and 1962. With proper planning of the petrochemical industry, this raw material, the

committee opines, could have been put to good use in the country. The committee has urged that government should keep a close watch and effective control on the price of naphtha so as to ensure that it is available to the basic petrochemical units at competitive prices. The committee has also expressed itself in favour of a co-ordinated set-up in place of the numerous agencies dealing with the development of the petrochemical industry.

In its report on the working of the Union Public Service Commission, also presented to Parliament this week, the Estimates Committee warned that the introduction of regional languages as media of UPSC examinations would destroy the competitive nature of these examinations and lead to other complications unless the scheme was prepared with considerable care. The committee, however, has welcomed the recommendation of the UPSC that all the 15 languages included in the Eighth Schedule of the Constitution should be made "optional subjects" for the examinations.

The Minister for Steel, Mines and Metals, Dr Chenna Reddy, announced this week his scheme to reorganise Hindustan Steel Ltd (HSL) so as to make it more effective in guiding the operations of the three public sector steel plants at Durgapur, Bhilai and Rourkela. This effective control with HSL, Dr Reddy observed, was needed as the steel market was no longer a sellers' market. Under the reorganisation scheme, HSL is to be provided with greater powers and functions to plan, control and advise the three plants. For the present, the Bokaro project will retain its separate entity. The question of its merger with HSL will be considered when it goes into production.

Reorganisation of the Board

The new board of HSL, Dr Reddy said, would include besides the chairman, three functional directors and two deputy chairmen on full-time basis and two government representatives and a maximum of three other directors on a part-time basis. The part-time directors would be drawn from industry, commerce or other fields of economic and technological activity. The general managers of Durgapur, Rourkela and Bhilai would be brought back into the HSL board. The three full-time directors would be responsible for operations in specific areas, namely, personnel (including industrial relations), commercial activities and finance. The two deputy chairmen would assist the chairman in co-ordination and integrated planning and the implementation of policy decisions. The board would specifically assist the steel plants in organising detailed evaluation of staff needs and capabilities as well as in preparing co-ordinated production plans not only in the light of the changing domestic requirements of steel but also of exports.

Another important change that is being introduced in the management of the public sector steel plants is the constitution of advisory boards at the plant level. While the exact constitution of these boards. Dr Chenna Reddy said, would be settled in consultation with the HSL Chairman, who would as well have a say in the nominations to the boards, it was envisaged that the general manager of a plant would be the chairman of the advisory board concerned. The state governments concerned would be given representation on the boards. So also the employees of the plant. Besides, two or three prominent non-officials with experience of industry, commerce, etc., would be included in the advisory boards.

The Minister announced that Mr R. P. Sinha, chief of the Engineering and Design Bureau of HSL, would shortly take over as general manager of the Rourkela steel plant. Major-General B. P. Wadhera, Commandant, College of Military Engineering, Poona, would join the Durgapur plant as its director-in-charge. The name of the new general manager for Bhilai was not disclosed by Dr Reddy. The new incumbent for this post, he said, had, of course, been selected. At the headquarters, one deputy chairman, the Minister said, was

already functioning and acting as the chairman. The new chairman would be appointed soon.

Speaking on a calling attention motion of the Jana Sangh member, Mr S.S. Bhandari, in the Rajya Sabha on Indian settlers abroad, the Deputy Minister for External Affairs, Mr Surendra Pal Singh, assured that House that the Government of India had not placed any restrictions on the inflow of persons of Indian origin from Singapore; restrictions applied only to the entry of people of Indian origin from Kenya. During a short debate on the issue, several members criticised the union government's policy in regard to Indian settlers abroad. These settlers, it was alleged, were treated like orphans. Mr A. D. Mani (Ind.) suggested that the government should allow Indian citizenship to those Indian settlers abroad who wanted to relinquish their British passports and come back to India.

Replying to a calling attention motion of the SSP leader, Mr Madhu Limaye, on the demand for sovereign Nagaland by the left communist Nagas and the recent recovery of a high explosive bomb, the Home Minister, Mr Y. B. Chavan, observed in the Lok Sabha that the government was keeping a watch on certain dangerous trends in Assam and Nagaland where groups of people had been receiving training in subversive activities. Mr Chavan confirmed that certain persons recently arrested in Nagaland were found to have connections with the Communist Party of India (Marxist). Mr Chavan did not have any doubt that the Naga hostiles had established contacts with China and they had been receiving weapons from that country. He, however, was not categorical about the source of the high explosive bomb that had been seized. Investigations in this regard, he said, were going on.

The Lok Sabha adopted this week the Jammu and Kashmir Representation of People (Supplementary) Bill which sought to empower the Supreme Court to hear appeals against the orders of the Jammu and Kashmir High Court on election petitions.

Question Hour

Sugar Policy : The Minister of State for Food and Agriculture, Mr A. P. Shinde, told the Rajya Sabha on March 22 that the new sugar policy had shown encouraging results and that more acreage was being brought under sugarcane cultivation this year. The low yield of sugarcane in Uttar Pradesh and Bihar, Mr Shinde observed, was mainly due to lack of irrigation facilities. The two state governments, he added, had been urged to provide adequate irrigation facilities. In the interest of raising yield, the union government, Mr Shinde further stated, had taken steps to provide better seeds from the Coimbatore research station and adequate fertilizers.

Super Bazaars : The Minister of State for Community Development and Co-operation, Mr M. S. Gurupadaswamy, informed the Rajya Sabha on March 22 that the managements of super bazaars in the country had been asked to take steps to avoid losses by rationalising their staffing patterns and through direct procurement of consumer goods from manufacturers. The 15 super bazaars which were working in 1966-67, the Minister revealed, had incurred losses in that year. The losses in some cases were attributed to the fact that most of the super bazaars had functioned only for a part of the year. The Delhi Super Bazar (three units), Mr Gurupadaswamy disclosed, had sustained a loss of Rs 5.64 lakhs during 1966-67.

Consumer Prices : The Minister of State for Finance, Mr K. C. Pant, told the Lok Sabha on March 18 that there had been a noticeable decline in the prices of consumer goods in recent months. The wholesale price index at 199.7 (provisional) for the week ending February 24, Mr Pant said, showed a fall of 10.9 per cent from the peak level reached by it in October, 1967. Compared with the index for the corresponding period a year ago, it was 2.1 per cent lower.

WINDOW ON THE WORLD

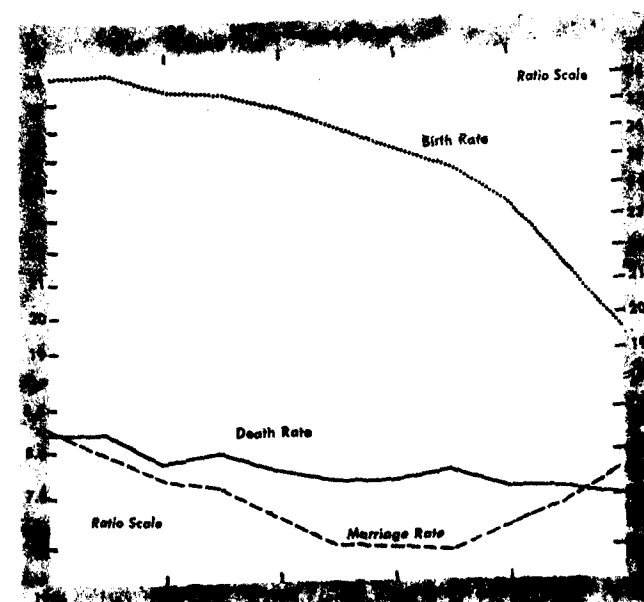
Canada's Population Profile

JOSSLEYN HENNESSY

THE GROWTH pattern of Canada's population in recent years has turned most forecasts upside down. The rapid growth since World War II had suggested that there would be a great increase in the proportion of the population in the "marriageable" and child-bearing age groups in the 1960s and that, taking into account established fertility patterns, greatly increased births in this decade would sustain the pace of population expansion. The increase in relative size of the "family-forming" section did in fact occur, and was, moreover, accompanied by a trend to earlier marriage, and more recently, an increase in the number of marriages per 1,000. Yet between the 1961 and 1966 censuses, Canada's population rose by only 1.8 million, or 9.7 per cent, compared with 2.2 million, or 13.4 per cent, between 1956 and 1961, and 2.1 million between 1951 and 1956, a gain of nearly 15 per cent.

This sizable shift from the forecasts is largely explained by the change in fertility patterns. Throughout most of

Births, Marriages and Deaths



1940-55 the rate of births per 1,000 women had been gradually declining among those over 35, and rising for younger women. However, in the late 'fifties, the fertility rates for younger women levelled off and, following the appearance and widespread use of new methods of contraception, sharp downward trends emerged in the rates for all age groups. Consequently, the annual number of births has been declining steadily in the past seven years, and the birth rate per 1,000 reached an estimated record low of 19.4 in 1966, declining from 26.8 in 1960. Thus although there were in 1966 4.7 million women of child-bearing age, over half a million more than in 1957, births were down by 17 per cent, and the trend continues. For the first half of 1967 births were 4.7 per cent lower than in the first half of 1966.

But while the change in the pattern of births, combined with a steady but slight downward movement in mortality rates, has lowered the "natural" rate of increase, net immigration has countered this, so that the overall rate of population growth has remained roughly constant throughout the 'sixties. The level of net immigration is notoriously a forecaster's headache, because it is influenced not only by official policy, but also by foreign expectations about Canada's economic prospects compared with other possible goals for emigrants. When, however, forecasters run up against facts which make it impossible to foretell the future, they do not bow themselves

out of their jobs by frankly saying they don't know. Instead they fall back on "assumptions." And the two assumptions that Canada's census statisticians make are that (1) there will be no change in the government's immigration policy, and (2) that Canada's economic prospects compare so favourably with those of Europe that net immigration will continue buoyant. For my part, I am not so sure. Western Europe's prospects look pretty good to me.

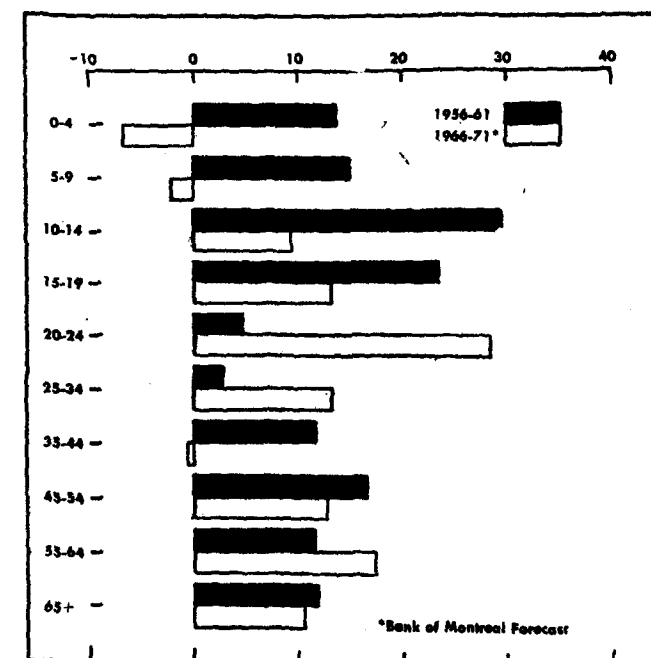
POPULATION BY AGE GROUP

Age Group	Thousands				% Distribution			
	1956	1961	1966	1971*	1956	1961	1966	1971*
0-4	1,984	2,256	2,200	2,055	10.3	12.4	11.0	9.5
5-9	1,807	2,079	2,254	2,209	11.2	11.4	11.3	10.2
10-14	1,435	1,856	2,078	2,275	8.9	10.2	10.4	10.5
15-19	1,162	1,433	1,855	2,102	7.2	7.9	9.3	9.7
20-24	1,129	1,184	1,458	1,872	7.0	6.5	7.3	8.7
25-34	2,414	2,481	2,439	2,762	15.1	13.6	12.2	12.8
35-44	2,140	2,390	2,541	2,534	13.3	13.1	12.8	11.7
45-54	1,612	1,878	2,084	2,347	10.1	10.3	10.5	10.9
55-64	1,154	1,289	1,488	1,745	7.2	7.1	7.5	8.1
65 and over	1,243	1,391	1,521	1,684	7.7	7.7	7.6	7.8
Total	16,080	18,238	19,319	21,585	100	100	100	100

* Bank of Montreal forecast.

The pattern of Canada's fertility, in contrast, looks less rosy to the forecasters and they predict that it will continue on its downward trend, but at a more moderate rate, as Canadians develop new ideas about the "ideal" size for a family. Consequently the change in the rate of growth of the groups under 10 years of age between 1966 and 1971 (the next census year) is expected to differ radically from that of the years 1956-61. Changes as forecast in the adjoining charts would bring Canada's population in 1971 to some 21.6 million, with a profile by age-groups as set out in the above table. Although this profile, which is a projection of past and present birth rates, reveals some characteristics commonly expected for a number of years, nevertheless the lessening in the relative

Percent Change in Population by Age Group



weight of the youngest age group has new implications for Canada's schools and colleges.

The section of the population under 20 shows a pronounced shift, both in proportions and in numbers, in favour of the high-school and university age-groups. The marked need for longer education which is emerging in Canada, as in all western countries, and the consequence that a higher proportion of people between 15 and 24 will postpone their entry into the labour force, means that despite an actual decline in primary school requirements, the heavy demands for funds for overall educational facilities will continue.

The reduced rate of entry of young people into the working population should, however, be more than offset by increased participation by women. As the course of fertility rates has illustrated, even though people are marrying younger, they are both limiting the size of their families and postponing the bearing of children. Consequently more women than ever before have been entering the labour force. Participation rates for women over 20 have increased in Canada every year since 1956, particularly for the 20-24 and the over-45 age groups, and this trend is likely to continue.

The higher proportion of "working-wives" expected in 1971 will have many economic repercussions. Not only is the labour

force likely to expand at a faster rate than the population but patterns of demand for consumer goods and housing will be influenced by the higher proportion of small, relatively affluent families.

While the labour force as a whole seems set for healthy expansion, particular age groups will create problems. The low birth rate of the thirty year olds will be reflected in a contraction of the age group 35-44. Today, this group, which is a pool of experienced technical and middle-management skills, constitutes over 22 per cent of the labour force. By 1971, only 19 per cent of the working population is likely to be in this age group, who will thus be called upon to shoulder heavier responsibilities.

These changes in Canada's population mix will slow the expansion of primary and secondary education and speed the expansion of universities and higher technical education, because with fewer in the key middle working age group, business and government will have increasingly to turn to younger people to share the responsibilities of leadership and decision-making.

Sources and Acknowledgments: The facts and figures on Canada's population come from the latest issue of the Bank of Montreal's "Business Review".

Mauritius Looks for Foreign Investment

MADAN M. SAULDIE

AFTER 157 years of British rule, Mauritius came into its own on March 12 after a series of pre-independence disturbances. It was feared at the time that the stipulated independence date might have to be postponed, but the situation seems to have been brought under control on independence eve.

As in politics, so in the economy of Mauritius, communal demarcations play a predominant role and in fact characterise its very structure. Since over 67 per cent of Mauritius' 770,000 population—spread over an area of 720 sq. miles—is of Indian origin, they dominate politics and one of their leaders, Sir Seewoosagar Ramgoolam, heading the socialist-minded Labour Party, is the first Prime Minister.

But the economic situation is almost the reverse of it. The dominant position is occupied by the French and French-speaking Africans (Creoles) who own industry and run insurance, banking and other business institutions. Indians, mostly Hindus, are engaged mainly in agriculture, as they have always been ever since their immigration which commenced in 1838, when they were brought in as indentured labour to replace the freed Negro slaves from the sugar plantations. The Muslims among Indians have been doing petty businesses like pedlars, shopkeepers, fruitsellers etc. The 45,000 Chinese are engaged in trade and have been adopting other avocations as need arises.

For quite some time, the multi-racial character of the Mauritian population had demonstrated an exemplary harmony. But during the 1960's, the racial divergences have increasingly come to the fore with the Chinese looking to Peking, the Muslims seeking links with Rawalpindi, the Hindus refreshing their bonds with New Delhi and the French and Creoles sticking to the Napoleonic code which is still the core of the law on the island.

While racial disturbances as a result of these conflicting loyalties have been responsible not only for the political instability but also the delay in the island's independence, the economy of Mauritius has continued to flourish, though still mainly dependent on sugar which accounts for over 90 per cent of the country's exports and 35 per cent of its national income.

Since 1960, the Mauritian government has been trying to diversify the mono-culture character of the economy and some tangible results have already accrued with the increased cultivation of tea and tobacco. Furthermore, emphasis is being continuously laid on labour-intensive agricultural and industrial projects in order to ease unemployment burdens caused by

a fast-growing population. Efforts are also being made to produce a variety of import-substituting items in the country.

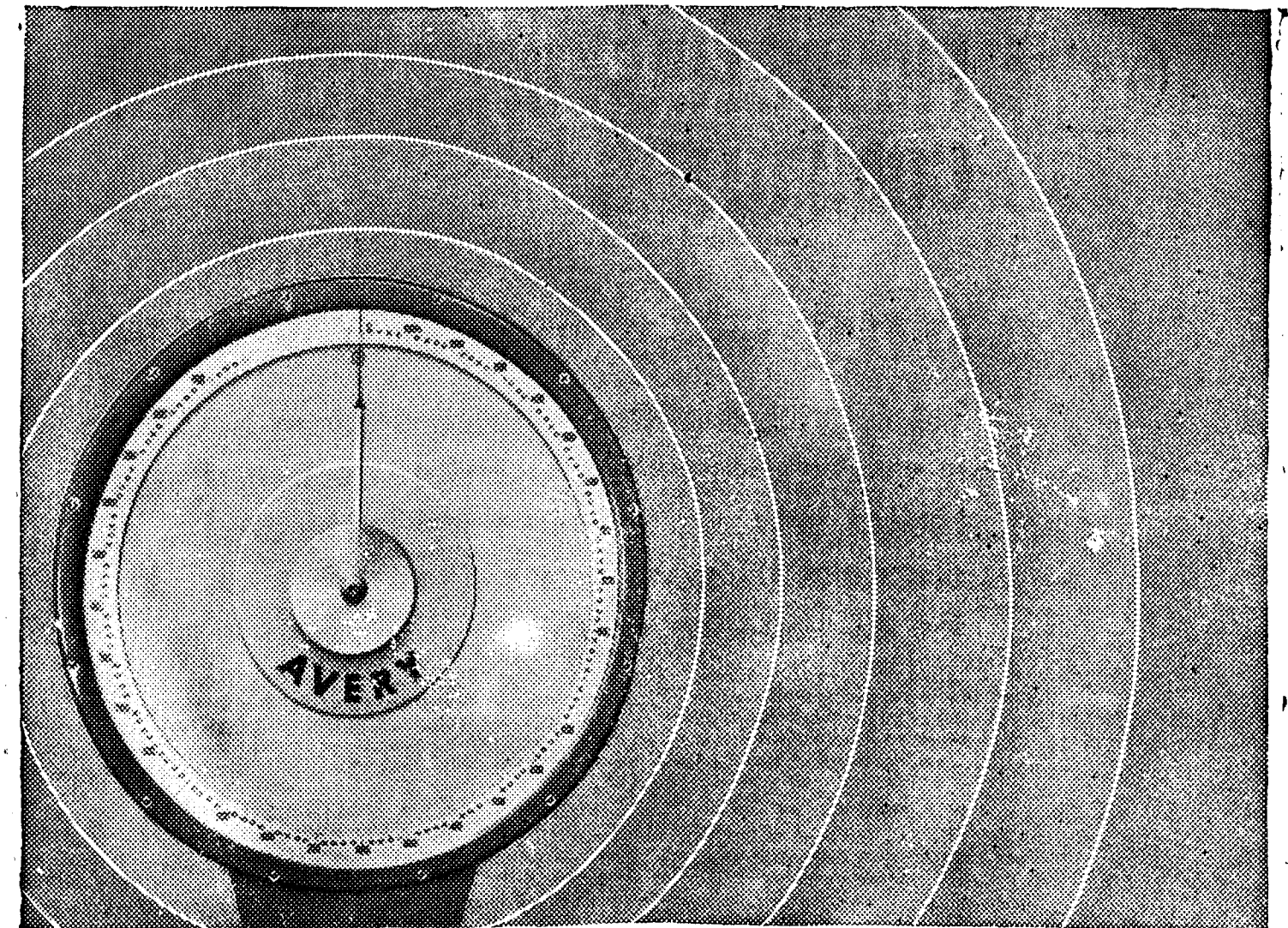
Mauritius imports a wide variety of consumer and capital goods which come mainly from the UK and the USA. In fact, the UK has always been a predominant supplier of goods to Mauritius from which she imports cane sugar in bulk.

Mauritius is now keen on attracting foreign investment to give the projects it has planned a practical shape. For this, the country's income-tax law was amended in 1961 particularly to provide the necessary incentive to overseas investors, the most important provision being the tax holiday of up to eight years with normal depreciation allowances.

Although foreign investment has been flowing in from the UK, USA and France, Mauritius attaches special significance to any investment offers from India and Pakistan for the obvious reason of the historic links of its population with these countries. During his second visit to India in December last, the Mauritian Prime Minister, Mr Ramgoolam, had sought Indian collaboration for setting up joint industrial ventures in Mauritius. India can do this as she is doing in several other African countries. Obviously, by doing so, India will also be able to sell substantial amounts of machinery, equipment and the technical know-how to that country. This will give a boost to the trade between the two countries which has been at a low level because of certain reasons.

India has been a traditional supplier of textiles (cotton and artsilk), spices, vegetable oils, pulses and films. Lately, Mauritius has also bought considerable quantities of Indian rayon and synthetic textiles. But because of the sharp competition Indian goods have to face and the lack of a direct shipping service, the trade has not been growing. The setting up of joint ventures, therefore, provides the right opportunity to diversify India's trade with Mauritius and sell more of non-traditional items.

Mauritius has also sought technical assistance from Pakistan. Mr Aunath Beejadhur, Governor of the Bank of Mauritius, who recently visited Pakistan, said that his country would welcome Pakistan's know-how and practical experience to boost agricultural output, set up a chain of industries and improve the banking system on the island. Mr Beejadhur was particularly keen on seeking Pakistan's assistance in growing rice, so far not produced on the island. A plea was also made for promoting trade between Mauritius and Pakistan.



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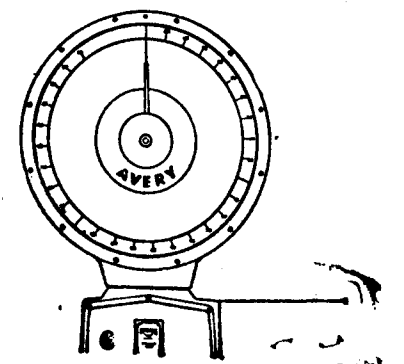
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International Computers & Tabulators (India) Private Limited
 Head Office:

Magnet House, Dougall Road,
 P.O. Box 516, Bombay-1 BR.
 Tel. 262991, 263264

Zone Offices:

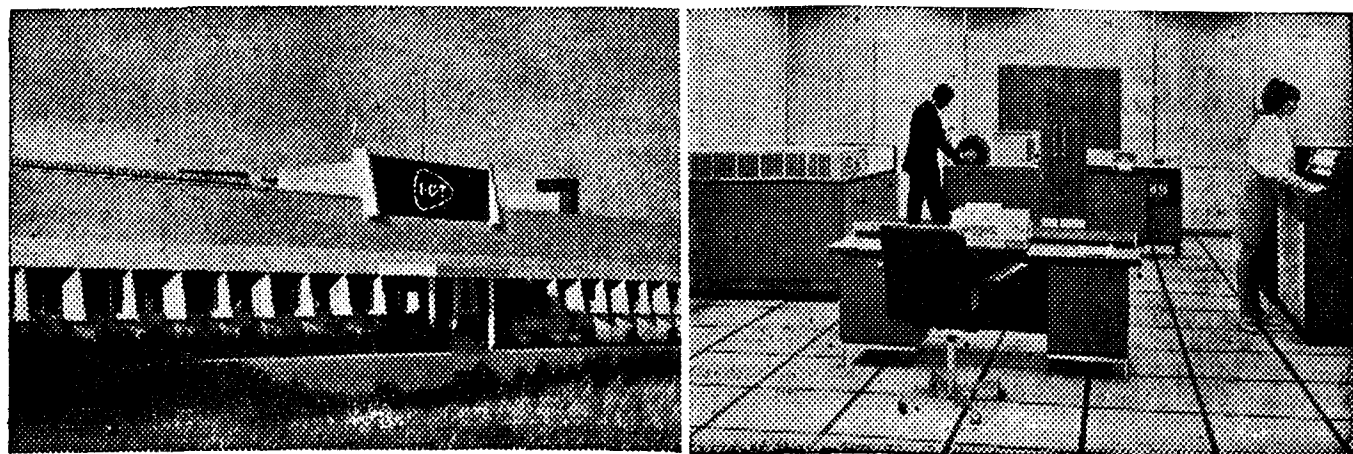
BOMBAY (WESTERN ZONE)
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 P.O. Box 516, Bombay-1 BR.
 Tel. 243509

MADRAS (SOUTHERN ZONE)
 L.I.C. Building, 3/18 Mount Road,
 P.O. Box 2437, Madras-2.
 Tel. 86496-97

CALCUTTA (EASTERN ZONE)
 Todi Mansion, 7th Floor,
 P-15 India Exchange Place Extn.,
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The moving finger writes

THE TEMPERATURE of the gold fever has gone down and may go down still further despite President de Gaulle. It is however unlikely that the commercial price of gold in world markets will touch down on its monetary price of US \$35 per fine ounce. This would mean, among other things, that smugglers will have to pay more for their supplies in the future. Mr Morarji Desai and perhaps others seem to believe that this would discourage the clandestine import of gold into our country. It is their assumption, obviously, that gold prices in our country will not rise to an extent necessary to offset an increase in the commercial price of gold in world markets and that there will therefore be a squeeze on smugglers' margins. There may be something to be said for this belief if the commercial price of gold abroad maintains a sharp increase. But, as we have seen, this may not be the case and my expectation is that domestic gold prices will go up sufficiently to compensate the smuggler for any likely rise that commercial markets abroad may settle for once the gold stampede, which is quietening down, exhausts itself. Given the fact that the improvement in agricultural production is leading to some increase in rural incomes this year, I should be surprised indeed if the demand for gold for hoarding or ornaments does not become a little more active. In the circumstances, I am unable to share the optimism entertained in some quarters that, as a result of recent developments in world gold markets, smugglers of the yellow metal are bound to find it less remunerative to remain in this traffic.

There is also another reason why no facile expectation should be entertained of the prospects of a decline in the illicit entry of gold into our country. As is well known, clandestine exports of silver are helping to pay for some of the gold which is being smuggled in. The world silver markets are now in a more or less perpetual state of boom. They will certainly further react bullishly to the rise in the commercial price of gold in the world's trading centres. This would mean that the profits of those who are smuggling the white metal out of India could go up and that, as a result of this, although the commercial price of gold may have risen abroad, the cost of this metal in terms of silver may still leave an attractive margin for the smuggler. The Finance Minister is threatening the country with new legislation on gold. I hope he will not tend to minimise the difficulties of his self-imposed crusade by encouraging in himself unrealistic expectations about the prospective potential of the domestic demand or the potency of smugglers' opportunities.

Before I leave the precious metals to themselves or to those who could afford to speculate in them, I would like to share with my readers the gist of an interesting assessment in a recent issue of 'The Financial Times' (London) of the current silver boom. The writer of this article, Mr Brian Lapping, points out that the high prices now ruling have no justification when considered strictly in terms of the prevailing conditions of supply and demand. Bullion brokers, including Handy and Harman of New York and the big three in London, Sharps Pixley, Samuel Montagu and Mocatta and Goldsmid, all maintain that there is plenty of silver available in relation to recent or immediately prospective trends in demand. These experts maintain that silver is now simply an industrial metal, the price of which should be set by a balance between supply and industrial demand. Last year industrial demand fell by five million ounces in the United States compared with a 1966 and throughout the non-communist world there was a drop in industrial demand of about one per cent below the 1966 level. Since the US metal refineries' strike should end, and this would further increase supplies, the world's leading

bullion brokers argue that the price of silver must fall sooner or later from its existing abnormal levels and that unwary speculators are liable to get their fingers burnt.

This however is only part of the picture. Taking a longer view of the supply and demand probabilities, Mr Lapping notes that figures for newly-mined silver outside the communist world show a slower rate of growth than do figures for industrial demand. From 1962 to 1966, production rose at a rate of 2.5 per cent per annum as against a rate of increase of nearly eight per cent yearly in industrial demand. Silver moreover is becoming a mere by-product and as substitutes are developed for copper, lead and zinc, replacing these metals in some of their uses, the production of silver might suffer incidentally to some curtailment in the mining of these other metals. But then all this sophisticated reasoning about the secular outlook for silver does not seem to impress speculators in that metal. For them what lies beyond the nose is green enough pasture and in these days at least when all paper currencies are suspect, silver, like gold, indeed, has attractions not only for the speculator but also for the cautious and the careful. And why only gold or silver? There are other metals too, such as platinum, palladium and tin, to mention some which are being used as hedge against the depreciation of the world's currencies, while even humbler commodities, such as rubber and wool, are becoming attractive counters in the game.

I am sorry that the uncle has let the niece down. President Jomo Kenyatta may have a long memory where imperialist misdeeds are concerned, but he is evidently remarkably forgetful so far as India's fraternal gestures of the Nehru days go. Mrs Gandhi, who recently blamed the Kenya Indians for inviting trouble through their sins of omission in the past (when, as she said, they had failed to be sufficiently sociable towards or hospitable to the Kenyan community in the midst of which they lived or wanted to settle down) should explain why the efforts of her and her predecessor governments at cultivating Kenyan nationalism and its leaders have now earned for our country such a rude rebuff as has been meted out to it through the treatment which Mr B. R. Shagat got in Nairobi. Incidentally, our High Commissioner in Kenya seems to count for far less in Nairobi than the watchman of the Chinese Embassy does in New Delhi.

Talk of tax reform is in the air and, as is only to be expected, much human ingenuity is being expended on inventing new forms of fiscal exaction. Mr S. Bhoothalingam, for instance, suggests that companies should pay a new tax related to capital employed. All this tempts me to narrate the cautionary episode of the French couple, whose tragic fate was reported recently in the western press. It appears that the man and his wife were running a small family enterprise and managing well on the whole until the French government came forward with its new "value-added" tax. This proved a killing imposition in a sense more than the figurative for so frightening were its complications for the simple folk that the French couple chose to put an end to their lives rather than let themselves in for book-keeping obligations beyond their intellectual, emotional or other resources. I am not insinuating that Mr Bhoothalingam's proposal, if adopted by the Finance Ministry, would lead to a spate of vacancies in company board rooms, but I do suggest that it would do nothing to make easier a life which is already sufficiently difficult for those whose mission in life, apparently, is to render unto Caesar much more than what is Caesar's.

V.B.

The Bank of Baroda Limited

(Registered Office: Mandvi, Baroda)

Directors' Report

The Directors have pleasure in submitting this Fifty-ninth Annual Report together with the statement of accounts for the year ended 31st December 1967. The report of the Auditors is annexed.

Previous Year Rs.	This Year Rs.
91,25,333.39	93,41,957.70
The net profit for the year 1967, after providing for taxes, including Rs. 1,25,333.39 brought forward and after taking Rs. 26,80,804.41 towards depreciation on buildings and furniture amounts to	
16,00,000.00	16,00,000.00
18,00,000.00	18,50,000.00
20,00,000.00	21,50,000.00
36,00,000.00	36,00,000.00
90,00,000.00	92,00,000.00
1,25,333.39	1,41,957.70
91,25,333.39	93,41,957.70

2. The Directors recommend to the Shareholders, payment of a final dividend for the half year ended 31st December 1967 at the rate of 18% p.a. on all equity shares issued prior to 30th June 1967 (making 17% p.a. for the year) and on the new issue of 1,00,000 equity shares at the rate of 18% p.a. in proportion to the amount paid up thereon for the period beginning from the first day of the month following the actual date of receipt of the application moneys, subject to deduction of tax at the appropriate rates, to be paid out of the Special Reserve and which will absorb Rs 21,50,000.

3. During the year under review, the business of the bank was satisfactory.

4. The Reserve Bank of India rate remained unchanged at 6% during the year.

5. The United Kingdom devalued the Sterling on the 18th November 1967 by 14.3%. The major currencies of the world maintained their exchange value. However, some of the U.K.'s trading partners in the EFTA as well as some of the Commonwealth territories devalued their currencies either in the same degree or in varying degrees following the devaluation of the Sterling. None of the East African countries devalued their currencies.

6. During the year 1967, the bank opened, 39 new branch offices as under:

Bihar	...	...	...	...	1
Gujarat	...	...	...	...	14
Goa	...	...	...	...	2
Madhya Pradesh	...	...	...	...	3
Madras	...	...	...	...	1
Maharashtra	...	...	...	...	4
Orissa	...	...	...	...	1
Rajasthan	...	...	...	...	3
Uttar Pradesh	...	...	...	...	5
West Bengal	...	...	...	...	4
United Kingdom	...	...	...	...	1

(one temporary branch office-closed during the year)

(one temporary branch office-closed during the year)

making a total of 288 branch offices in India. Out of 20 branch offices in foreign countries as at 31st December 1966, 3 branch offices in Tanzania were taken over by the Government of Tanzania as a result of Nationalisation of Banking Industry in that country. With the opening of the branch at Southall in United Kingdom, the total number of Bank's foreign branches as at 31-12-1967 was 18, making the total number of branch offices 306. Since the beginning of the current year a temporary branch office has been opened on 21st January 1968 at the Indian International Trade and Industries Fair, at Madras.

The question of compensation to be paid to us as a result of taking over of our branches in Tanzania is yet under negotiations with the Government of Tanzania.

7. Position relating to the Bank's Narayanganj branch (East Pakistan) as reported in last report remained unchanged. Consequently returns relating to the year ended 31st December 1967, for that branch office were not available. However, under the advice of the Reserve Bank of India, the last audited figures of Liabilities and Assets of the branch office as of 30th June 1965, have been incorporated in the accounts as at 31st December 1967.

8. The bank applied for and obtained exemption from audit under Section 228 of the Companies Act 1956 in respect of 154 branch offices in the Indian Union and 4 foreign branches. Out of the rest of the branches 136 offices in India were either audited by the statutory auditors or branch auditors and all the 17 offices outside India have been audited by Chartered Accountants who are competent to act as Company Auditors under the laws of the respective countries and who have been approved by the Bank's Auditors for the said purpose.

9. Shri R. D. Birla, Chairman of the Board of Directors, tendered his resignation on 6th July 1967 on account of his advanced age and indifferent health, which was accepted by the Board with great regret. Shri Birla was associated with the Bank as a Director for 28 years and as its Chairman for the past 2½ years. The Bank has benefited greatly by his wise counsel and matured advice.

In place of Shri Birla, your Directors have, with a view to implement the policy of the Government on Social Control over Banks, elected the Managing Director, Shri N. M. Chokshi, to be the Chairman of Board of Directors with powers and functions of the Chief Executive of the Bank.

On his appointment as the Minister in the Government of Gujarat, Lt. Col. H. H. The Maharaja Fatehsinh Gaekwad of Baroda tendered his resignation from 4th March 1967 which was accepted by the Board with great regret. He served on the Board for the last 13 years during which period the Bank had benefited by his guidance and advice.

In view of the Social Control over the commercial banks as envisaged by the Banking Laws (Amendment) Bill 1967, your Directors Shri Naval H. Tata, Shri Narsing Dass Bangur and Shri Rasesh N. Mafatlal resigned as Directors of the Bank effective from 22nd December 1967. Their resignations were accepted by the Board with great regret.

Shri Tata was associated with the Bank for the last 20 years, Shri Bangur for 9 years and Shri Mafatlal for 7 years. Your Directors have placed on record the valuable services rendered by Shri Tata, Shri Bangur and Shri Mafatlal during the tenure of their offices giving the Bank the benefit of their guidance, help and advice.

Under the provisions of Article 151 of the Articles of Association of the Bank, your Directors have appointed:—

- (1) Shri Kaikhushroo S. Engineer,
- (2) Shri Ganesh Balkrishna Newalkar,
- (3) Dr. Verghese Kurien and
- (4) Prof. C. L. Gheevala,

as additional Directors during the year. Shri Engineer, Shri Newalkar, Dr. Kurien and Prof. Gheevala will hold office only upto the date of the Annual General Meeting i.e. upto 13th April 1968. They being eligible, offer themselves for appointment as Directors.

10. In accordance with Article 145 of the Articles of Association of the Bank, three Directors:—

- (1) Shri Kantilal Nahalchand,
- (2) Shri Anandlal Hiralal Sheth,
- (3) Shri Chinubhai Chimanbhai,

retire by rotation and being eligible, offer themselves for re-election.

11. With effect from 21st December 1967, Shri M. G. Parikh was designated as the General Manager. Shri Parikh has served the Bank for over 26 years in many senior executive posts.

12. The shareholders are requested to appoint auditors to hold office from the conclusion of this meeting upto the conclusion of the next Annual General Meeting and to fix their remuneration.

Bombay,

Dated 29th February, 1968.

For and on behalf of the Board,

N. M. CHOKSHI
Chairman.

ADDENDUM TO THE DIRECTORS' REPORT

In conformity with the policy of Government for the social control of banks, Shri Utsava Shankarlal Parikh was appointed an additional Director of the Company. He continues to hold office upto the date of the Annual General Meeting. Notice has been duly received in the Company's office of the proposal for his candidature for the office of Director. On being appointed Director, he will be a Director liable to retire by rotation.

Bombay

Dated 7th March, 1968.

For and on behalf of the Board,

N. M. CHOKSHI
Chairman.

The Bank of Balance Sheet as

31-12-1966		CAPITAL AND LIABILITIES			
Rs.	Rs.		Rs.	p.	Rs.
		1. CAPITAL:			
		Authorised Capital:			
	8,00,00,000	8,00,000 Equity shares of Rs. 100 each ...	8,00,00,000.00		
	4,00,00,000	Issued & Subscribed Capital:			
		5,00,000 Equity shares of Rs. 100 each ...	5,00,00,000.00		
2,00,00,000		Amount called up at Rs. 50 per Equity share ...		2,50,00,000.00	
		2. RESERVE FUND AND OTHER RESERVES:			
		Reserve Fund under Section 17 of the Banking Regu-			
	1,82,30,000	lation Act, 1949 ...	2,00,80,000.00		
	94,63,760	Share Premium Account ...	94,63,760.00		
	20,00,000	Special Reserve ...	21,50,000.00		
	1,72,750	Development Rebate ...	1,72,750.00		
2,98,66,510				3,18,66,510.00	
		3. DEPOSITS AND OTHER ACCOUNTS.			
	139,04,96,759	Fixed Deposits ...	150,35,28,155.81		
		(Including employees' security deposits			
		Rs. 15,59,336.70)			
	62,40,17,447	Savings Bank Deposits ...	69,77,67,763.45		
249,95,56,625	48,50,42,419	Current Accounts, Contingency Accounts, etc.	54,91,35,281.58		
				275,04,31,200.84	
		4. BORROWINGS FROM OTHER BANKING COMPANIES, AGENTS, ETC.:			
	8,95,82,560	(i) In India ...	8,79,44,984.14		
		(Includes an amount of Rs. 8,79,44,984.14 borrowed			
		from the Industrial Development Bank of India)			
	14,40,448	(ii) Outside India ...	11,39,171.51		
9,10,23,008				8,90,84,155.65	
		Particulars:			
		(i) Secured			
	28,265	(a) by part of Bills, per contra ...			
		(b) under the Refinance Scheme of the Industrial			
		Development Bank of India vide 5.1. (i) per			
	8,56,17,388	contra ...	8,27,01,494.78		
		(ii) Unsecured			
		(a) under the Refinance Scheme of the Industrial			
		Development Bank of India vide 5.1. (i) per			
	39,65,173	contra ...	52,43,489.36		
	14,12,182	(b) Others ...	11,39,171.51		
2,03,04,661				2,91,76,234.85	
		5. BILLS PAYABLE ...			
		6. BILLS FOR COLLECTION BEING BILLS RECEIVABLE as per contra			
	12,84,58,048	(i) payable in India ...	14,82,04,943.32		
19,20,22,855	6,35,64,807	(ii) payable outside India ...	6,49,94,192.77		
6,83,59,583				21,31,99,136.09	
		7. OTHER LIABILITIES		7,98,16,977.01	
		including:—			
		Rs. P.			
		(a) Branch Adjustments ...	3,20,24,358.09		
		(b) Net amount realised to date in			
		respect of assets under collection			
		of the former New Citizen Bank			
		of India Ltd.:—			
		(i) In India ...	4,41,390.62		
		(ii) In Pakistan pending repatria-	4,919.80		
		tion ...			
292,11,33,242		Carried over ...		321,85,74,214.44	

Baroda Limited at 31st December, 1967

31-12-1966		PROPERTY AND ASSETS			
Rs.	Rs.		Rs.	p.	Rs.
		1. CASH:			
18,84,53,869		In hand and with Reserve Bank and State Bank of			
		India (including foreign currency notes) ...			21,57,61,960.07
		2. BALANCES WITH OTHER BANKS:			
	50,56,610	(i) in India on Current Account ...	48,50,587.04		
	2,86,67,745	(ii) outside India on Current Account ...	1,95,77,629.73		
	2,07,00,394	(iii) outside India on Deposit Account ...	4,02,66,145.73		
5,44,24,749				6,46,94,362.50	
12,08,46,911		3. MONEY AT CALL AND SHORT NOTICE ...		15,84,22,596.07	
		4. INVESTMENTS AT MARKET VALUE:			
		(i) Securities of the Central and State Governments			
		and other Trustee Securities ...	63,85,69,026.00		
	*57,68,08,473	Treasury Bills of Central Government ...	1,50,00,000.00		
	11,25,00,000	(ii) Shares:			
	39,05,321	(a) Fully Paid Preference Shares ...	37,18,930.00		
	85,49,619	(b) Fully Paid Ordinary Shares ...	1,37,39,593.00		
	24,79,903	(c) Partly Paid Ordinary Shares ...	2,34,200.00		
	60,19,600	(iii) Debentures or Bonds ...	84,50,747.00		
		(iv) Other investments:			
		(a) Foreign Government Loans and Treasury Bills			
	6,20,53,809	and other Trustee Securities ...	5,52,22,873.50		
	5,10,685	(b) Fully Paid Ordinary Shares (foreign) ...	90.00		
	Nil	(v) Gold ...	Nil		
77,28,27,410				73,49,35,459.50	
		5. ADVANCES:			
		(Other than bad and doubtful debts for which provision			
		has been made to the satisfaction of the Auditors)			
		I. Loans, Cash Credits, Overdrafts, etc:			
		Rs. P.			
	1,07,92,16,376	(i) in India ...	135,01,85,371.26		
		(includes an amount of			
		Rs. 8,79,44,984.14 relating to			
		medium term advances in			
		respect of which finance has			
		been obtained from the Indus-			
		trial Development Bank of			
		India as per contra)			
		(ii) outside India ...	15,49,08,833.19		
			150,50,94,204.45		
		II. Bills Discounted and Purchased			
		(excluding Treasury Bills of the			
		Central and State Governments):			
	15,22,07,153	(i) payable in India ...	15,28,61,950.38		
53,75,77,095	13,48,18,048	(ii) payable outside India ...	9,84,98,874.90		
			25,13,60,825.28		
				175,64,55,029.73	
		Particulars of Advances:			
		(i) Debts considered good in respect of which			
		the banking company is fully secured ...	145,08,90,100.90		
		(ii) Debts considered good for which the banking			
		company holds no other security than the			
		debtors' personal security including advances			
		under joint and several promotes ...	9,40,82,682.07		
		(iii) Debts considered good secured by the personal			
		liabilities of one or more parties in addition to			
		the personal security of the debtors ...	21,14,82,246.76		
		(iv) Debts considered doubtful or bad, not pro-			
		vided for ...	Nil		
			175,64,55,029.73		
87,41,30,034		Carried over ...		293,02,69,407.87	

* At Book Value.

The Bank of Balance Sheet as

31-12-1966		CAPITAL AND LIABILITIES—contd.			
Rs.	Rs.			Rs.	p.
292,11,33,242		Brought forward ...		321,85,74,214.44	
25,24,32,595		8. ACCEPTANCES, ENDORSEMENTS AND OTHER OBLIGATIONS per contra ...		23,22,11,913.88	
		9. PROFIT AND LOSS :			
	1,31,842	Profit as per last Balance Sheet ...		1,25,333.39	
	89,93,491	Add: Profit for the year brought from the Profit and Loss Account ...		92,16,624.31	
	91,25,333			93,41,957.70	
		Less: Ad-interim dividend paid at 16% p.a. for the half-year ended 30th June 1967 (subject to tax) ...	Rs. P.		
	16,00,000	Amount transferred to Reserve Fund ...	18,50,000.00		
	18,00,000	Amount transferred to Special Reserve ...	21,50,000.00		
	20,00,000	Bonus to Staff ...	36,00,000.00	92,00,000.00	
1,25,333				1,41,957.70	
		10. CONTINGENT LIABILITIES :			
	28,92,920	(i) On partly paid shares of Joint Stock Companies ...	1,35,450.00		
	2,95,326	(ii) Claims against the banking company not acknowledged as debts ...	2,97,300.85		
		(iii) Money for which the banking company is contingently liable (including Rs. 12,36,956.53 for guarantees given on behalf of the directors and the officers of the Bank) ...	74,32,95,445.67		
	56,94,74,730	(iv) Liabilities on Bills of Exchange re-discounted ...	1,66,12,052.23		
	72,48,038	(v) Liability on account of outstanding Forward Exchange Contracts for purchases and sales ...	15,03,07,450.02		
16,85,35,388			S	28,63,20,587.80	
24,85,22,477					

Note :—

- (1) Provision to the full extent for future gratuities to the staff has not been made—the liability for which has not been ascertained.
- (2) The Balance Sheet and Profit & Loss Account have been drawn up in accordance with the provisions of Section 29 of the Banking Regulation Act, 1949, and are not required to be and are therefore not drawn up in accordance with Schedule VI of the Companies Act, 1956.
- (3) Some of the figures of the previous year have been regrouped to make them comparable with those of the current year.
- (4) Reference is invited to para 7 the Directors' report regarding incorporation of the returns of Narayan-ganj Branch (East Pakistan).

317,36,91,170

K. S. AIYAR & Co.
Chartered Accountants
N. M. RALJI & CO.
Chartered Accountants

Total ...

345,09,28,086.02

N. M. CHOKSHI
KANTILAL NAHALCHAND)
ANANDLAL HIRALAL) Directors
CHINUBHAI CHIMANBHAI)
B. K. DAPHTARY)

Chairman

Directors

Baroda Limited at 31st December, 1967

31-12-1966		PROPERTY AND ASSETS—contd.			
Rs.	Rs.			Rs.	p.
267,41,30,034		Brought forward ...		293,02,69,407.87	
	9,83,225	(v) Debts due by directors or officers of the banking company or any of them either severally or jointly with any other persons ...		10,92,222.60	
	36,73,52,260	(vi) Debts due by companies or firms in which the directors of the banking company are interested as directors, partners or managing agents or, in the case of private companies, as members ...		21,15,27,473.59	
	10,00,161	(vii) Maximum total amount of advances, including temporary advances made at any time during the year to directors or managers or officers of the banking company or any of them either severally or jointly with any other persons ...		11,71,741.01	
	36,98,92,510	(viii) Maximum total amount of advances, including temporary advances granted during the year to the companies or firms in which the directors of the banking company are interested as directors, partners or managing agents or, in the case of private companies, as members ...		45,68,59,537.43	
	55,88,709	(ix) Due from banking companies ...		28,82,329.47	
		6. BILLS RECEIVABLE BEING BILLS FOR COLLECTION as per contra			
	12,84,58,048	(i) payable in India ...		14,82,04,943.32	
	6,35,64,807	(ii) payable outside India ...		6,49,94,192.77	
19,20,22,855				21,31,99,136.09	
25,24,32,595		7. CONSTITUENTS' LIABILITIES FOR ACCEPTANCES, ENDORSEMENTS AND OTHER OBLIGATIONS per contra ...		23,22,11,913.88	
	1,74,63,990	8. PREMISES LESS DEPRECIATION :			
	23,10,631	Premises at cost to 31st December, 1966 ...		1,97,74,621.17	
	1,97,74,621	Additions during the year ...		34,36,358.62	
	Nil			2,32,10,979.79	
	1,97,74,621	Less : Sales during the year ...		1,72,224.24	
	33,37,373			2,30,38,755.55	
1,64,37,248		Less : Total depreciation to date ...		38,38,709.41	
	1,89,37,929	9. FURNITURE AND FIXTURES LESS DEPRECIATION :			
	34,17,168	Furniture and Fixtures at cost to 31st December, 1966 ...		2,23,21,877.51	
	2,23,55,097	Additions during the year ...		43,53,639.65	
	33,220			2,66,75,517.16	
	2,23,21,877	Less : Sales during the year ...		4,22,461.38	
	93,20,436			2,62,53,055.78	
1,30,01,441		Less : Total depreciation to date ...		1,08,32,033.77	
	1,334	10. OTHER ASSETS :			
	72,11,585	(i) Shares of Bank of Baroda (U.K.) Nominees Ltd. ...		1,334.49	
	36,38,945	(ii) Interest accrued on Investments ...		90,10,271.58	
	38,19,122	(iii) Stamps and Stationery ...		38,47,338.24	
	53,24,482	(iv) Advances recoverable in cash or in kind ...		71,67,468.88	
	56,17,529	(v) Clearing Adjustments ...		1,05,68,115.97	
2,56,12,997		(vi) Advance Payment of Income Tax ...		99,78,030.87	
54,000				4,05,72,560.03	
317,36,91,170		11. NON-BANKING ASSETS ACQUIRED IN SATISFACTION OF CLAIMS AT COST ...		54,000.00	
				345,09,28,086.02	
		A. M. M. ARUNACHALAM) NAVNITLAL S. SHODHAN) K. S. ENGINEER) Directors VERGHESE KURIEN) C. L. GHEEVALA)			
				M. G. PARIKH General Manager	
				S. J. ASLOT Chief Accountant	

The Bank of

Profit and Loss Account For

31-12-66	EXPENDITURE	
Rs.		Rs. P.
9,10,18,949	1. Interest paid on deposits, borrowings, etc.	10,54,18,659.18
4,82,35,096	2. Salaries and Allowances and Provident Fund	5,67,14,146.59
1,81,692	3. Directors' and Local Committee members' fees and allowances	1,88,808.74
64,28,484	4. Rent, Taxes, Insurance, Lighting, etc.	74,43,120.53
1,74,053	5. Law Charges	2,12,268.00
23,10,711	6. Postages, Telegrams and Stamps	25,87,351.82
1,96,745	7. Auditors' Fees	1,81,437.80
25,17,076	8. Depreciation on and repairs to the banking company's property	29,11,446.39
30,52,746	9. Stationery, Printing, Advertisement, etc.	36,42,316.17
—	10. Loss from sale of or dealing with non-banking assets	—
44,21,676	11. Other Expenditure	50,81,911.12
89,93,491	12. Balance of Profit (Subject to provision for bonus to staff)	92,16,624.31
<u>16,75,30,719</u>	Total	<u>19,35,98,090.65</u>

Note: Particulars of remuneration relating to the Chairman, paid or provided for during the year:—

1966		Rs. p.
Rs.		
72,000	1. Salary	72,000.00
7,500	2. Allowance (entertainment)	7,500.00
Nil	3. Sitting Fees	Nil
Nil	4. Bonus	Nil
6,000	5. Bank's contribution of Provident Fund	6,000.00
Nil	6. Payment by way of gratuities, pensions, or otherwise in excess of the Bank's contribution and interest thereon	Nil
3,000	7. The monetary value of any other benefits or perquisites (calculated in accordance with income-tax rules)	3,000.00
<u>88,500</u>	Total	<u>88,500.00</u>

CERTIFICATE PURSUANT TO RULE 6(c) OF THE COMPANIES (BRANCH AUDIT EXEMPTION) RULES, 1961.

We hereby certify that no material change has taken place in the arrangements made for the audit of accounts of the Branch Offices exempted from audit under Rule 4(1) (b) of the Companies (Branch Audit Exemption) Rules, 1961, enabling the Chartered Accountants employed by the Bank for the purpose of audit of the accounts of Branch Offices, to visit the Branch Offices and to have access at all times to the books, accounts and vouchers of the Bank maintained at such Branch Offices, audited by them and for furnishing all such further information and explanations required by them and that such auditors have carried out the audit of the Branches assigned to them in accordance with the Internal Audit Programme drawn up by them and approved by the Bank's Statutory Auditors.

For THE BANK OF BARODA LIMITED

N. M. CHOKSHI
Chairman

ANANDLAL HIRALAL
Director

Bombay,

Dated 29th February, 1968

Baroda Limited

The Year Ended 31st December, 1967

31-12-1966	INCOME (Less Provision made during the year for bad and doubtful debts and other usual or necessary provisions)	
Rs.		Rs. p.
14,29,47,748	1. Interest and Discount	16,70,18,581.54
2,39,89,008	2. Commission, Exchange and Brokerage	2,60,08,816.74
5,73,530	3. Rents	5,65,892.35
Nil	4. Net profit on sale of investments, gold and silver, land, premises and other assets	Nil
Nil	5. Net profit on revaluation of investments, gold and silver, land, premises and other assets	Nil
14,367	6. Income from non-banking assets and profit from sale of or dealing with such assets	2,577.85
6,066	7. Other receipts	2,222.17
<u>16,75,30,719</u>	Total	<u>19,35,98,090.65</u>

N. M. CHOKSHI	Chairman	A. M. M. ARUNACHALAM)
KANTILAL NAHALCHAND)		NAVNITLAL S. SHODHAN)
ANANDLAL HIRALAL)	Directors	K. S. ENGINEER)
CHINUBHAI CHIMANBHAI)		VERGHESE KURIEN)
B. K. DAPHTARY)		C. L. GHEEVALA)
	M. G. PARIKH	S. J. ASLOT
	General Manager	Chief Accountant

REPORT OF THE AUDITORS TO THE SHAREHOLDERS

We have audited the foregoing Balance Sheet of The Bank of Baroda Ltd, as at 31st December, 1967 and also the foregoing Profit and Loss Account of the Bank for the year ended upon that date, in which are incorporated the returns from 54 Branches audited by us, 99 Branches audited by Branch Auditors and unaudited returns from 155 Branches for which exemption from the provisions of Section 228 of Companies Act, 1956 has been obtained from the Central Government under Rule 4 clauses (a) and (b) of the Companies (Branch Audit Exemption) Rules, 1961.

We report that:

- We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit and have found them to be satisfactory;
- the transactions of the Bank which have come to our notice have been within the powers of the Bank;
- in our opinion, proper books of account as required by law have been kept by the Bank, so far as appears from our examination of those books and proper returns adequate for the purpose of our audit have been received from the Branches of the Bank not visited by us;
- the Bank's Balance Sheet and Profit and Loss Account dealt with this report are in agreement with the books of account and the returns;
- the reports on the accounts of the Branches audited by Branch Auditors have been forwarded to us and the same have been considered by us in preparing our report;
- in our opinion and to the best of our information and according to the explanations given to us the said accounts, together with the notes thereon, give the information required by the Companies Act, 1956, in the manner so required for banking companies and on such basis the said Balance Sheet gives a true and fair view of the state of the affairs of the Bank as at 31st December, 1967 and the Profit and Loss Account gives a true and fair view of the profit for the year ended upon that date.

Bombay,

Dated 1st March, 1968.

K. S. AIYAR & CO.
Chartered Accountants

N. M. RAIJI & CO.
Chartered Accountants

The Bank of Baroda Limited

STATEMENT PURSUANT TO SECTION 212 OF THE COMPANIES ACT, 1956

The interest of the Bank of Baroda Limited in its subsidiary company, The Bank of Baroda (U.K.) Nominees Limited, as at 31st December, 1967 comprised of 100 fully paid ordinary shares of £1 each, being the entire capital of the subsidiary company.

For the year ended 31st December, 1967, the subsidiary company had no income and all the expenses were borne by the Bank of Baroda Limited. The subsidiary company therefore, made no profit or sustained no loss and consequently the Profit and Loss Account of the Bank of Baroda Limited does not include any profit or loss of its subsidiary.

As the subsidiary company is incorporated and operating in the United Kingdom, its Balance Sheet, Directors' Report and Auditors' Report for the relevant year have been made out in accordance with the law in force in the United Kingdom.

N. M. CHOKSHI	Chairman
KANTILAL NAHALCHAND)	
ANANDLAL HIRALAL)	
CHINUBHAI CHIMANBHAI)	
B. K. DAPHTARY)	
A. M. M. ARUNACHALAM)	Directors
NAVNITLAL S. SHODHAN)	
K. S. ENGINEER)	
VERGHESE KURIEN)	
C. L. GHEEVALA)	
M. G. PARIKH)	General Manager
S. J. ASLOT)	Chief Accountant

Bombay,
Dated 29th February, 1968.

THE BANK OF BARODA (U. K.) NOMINEES LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31ST DECEMBER, 1967

The Directors submit the Balance Sheet for the year ended 31st December, 1967. The Auditors' Report is also annexed.

No Profit and Loss Account is submitted as none has been prepared. No profit was made and no loss sustained. The expenses of the Company have been paid by the Bank of Baroda Limited, of which the Company is a wholly-owned subsidiary.

London, 17th January, 1968.

R. C. SHAH)
M. A. BARRETTO) Directors

THE BANK OF BARODA (U. K.) NOMINEES LIMITED

BALANCE SHEET AS AT 31ST DECEMBER, 1967

Capital Authorised and Fully Paid up : 100 Ordinary Shares of £ 1 each	£ 100	Cash at Bankers (Parent Company)	£ 100
	£ 100		£ 100

Note:
The Company has had no income from date of incorporation to date and all expenses have been paid by the Parent Company.

Signed on behalf of the Board,
R. C. SHAH)
M. A. BARRETTO) Directors

Report of the Auditors to the Members of the Bank of Baroda (U.K.) Nominees Limited.

We have audited the above Balance Sheet and have obtained all the information and explanations which we required. Proper books of account have been kept and the Balance Sheet is in agreement therewith.

In our opinion the Balance Sheet complies with the requirements of the Companies Act, 1948 and gives a true and fair view of the state of affairs of the Company.

Dated 17th January, 1968.

SPICER AND PEGLER
Chartered Accountants.

SAURASHTRA CHEMICALS

(Prop: Jiyajeerao Cotton Mills Limited)

PORBANDAR

Leading Manufacturers of

SODA ASH

and

CAUSTIC SODA

(Solid and Flakes)

BUY THE BEST—BUY "SAUKEM" PRODUCTS

THE RIGHT KIND OF CLOTH/

J.C. FABRICS

SPECIALITIES :

SUITINGS	ROLLER &
SHIRTINGS	SCREEN PRINTS
LENOS	TAPESTRIES
POPLINS	DHOTIES
TOWELS	SAREES

ETC. ETC.



Jayajee Rao
**COTTON
MILLS, LTD.**
BIRLANAGAR (M.P.)

Trade Winds

PAPER/PULP PLANTS IN NIGERIA, KENYA

THE NIGERIAN government has approached the Birla Brothers to provide technical and managerial know-how for the Negeria Paper Mill which was set up in the public sector two years ago but could not be put into operation for want of managerial and technical know-how. Subject to the approval of the Government of India, the Birlas have accepted the offer. The annual out-turn of this unit is expected to be more than £2 million. The Birla group has already participated actively in the establishment of textile, light engineering and groundnut oil units in Nigeria.

Negotiations are also in progress between the Government of Kenya and the Birla group for the setting up of a pulp and paper mill in Kenya with an initial annual capacity of about 50,000 tons. The International Finance Corporation and other financing agencies are also interested in the project. The Government of India is understood to have agreed in principle to advance a substantial loan to the Birlas to complete this project.

FIFTH FINANCE COMMISSION

The first meeting of the recently set up Fifth Finance Commission, presided over by its Chairman, Mr Mahavir Tyagi, was held in New Delhi on March 16. Other members of the commission are: Mr P. C. Bhattacharyya, Mr M. Seshachalam, Mr D. T. Lakdawala and Mr V. L. Gidwani. The commission is required to make recommendations among other matters as to (a) the distribution of divisible taxes; and (b) the principles which should govern the grants-in-aid of the revenues of the states and the sums to be paid to them by the centre having regard to, among other considerations, the scope for better fiscal management as also for economy consistent with efficiency which may be effected by the states in their administrative, maintenance, developmental and other expenditure. Three new terms of reference of considerable interest are: (i) the problem of unauthorised overdrafts of certain states and the remedial measures therefor; (ii) the scope for raising the revenues of the states from sources available to them under the states' list and also under Article 269; and (iii) review of the existing arrangement of levy of additional excise duties in lieu of states' sales taxes on sugar, textiles and tobacco and the scope for extending such arrangements to other commodities. The commission is required to make an interim report by September 30, 1968, and to make its final report by July 31 next year.

TEA EXPORT

The union Deputy Minister of Commerce, Mr Mohammad Shafi Qureshi, has emphasized the need for exporting more packaged tea and also instant tea for better returns. He was addressing the annual general meeting of the Calcutta Tea Merchants' Association on March 22. The Deputy Minister expressed concern at the sharp rise in internal consumption which had increased by 23 per cent from 135 million kgs in 1962-63 to 166 million kgs in 1965-66. In his presidential address, Mr J. H. Shah claimed that the tea industry and trade had contributed their full mite in retrieving the unfavourable foreign exchange position of the country. In 1967, export earnings of tea rose to Rs 189 crores as against Rs 137.5 crores in 1966.

FOOD IMPORTS

The Deputy Prime Minister, Mr Morarji Desai, is reported to have informed the members of the Informal Consultative Committee of Parliament at a meeting in New Delhi recently that India had spent on an average \$750 million a year during the past two years on import of foodgrains alone, besides substantial sums on purchase of other items such as ferti-

lizers. Giving the magnitude of Indian expenditure of foreign exchange on some critical items, Mr Desai added, apart from paying for food imports, India was spending on an average \$300 million annually on fertilizer purchases, \$160 million on crude oil and other petroleum products and \$80 million on raw cotton, in the past two years.

ARBITRATION SEMINAR

A two-day seminar on international commercial arbitration was held in New Delhi recently. It has suggested the following steps for promotional aspects of international commercial arbitration: (a) seminars, conferences, and research programmes should be arranged for propagation and development of arbitration and brochures and educative literature should be published on the subject for familiarising the traders and the profession with the procedures and practice of arbitration; (b) Strong and efficient systems of arbitration should first be established within the various countries of the world. This means that laws favouring arbitration should be developed in each country and an international agreement for the enforcement of arbitration clauses and agreements should be reached; (c) A network of national arbitration centres and regional associations should be developed in all countries of the world. These should be linked to what may be called an international commercial arbitration commission. Each of these centres, regional commissions and the international body will seek uniformity of national procedures for the handling of international cases. They will settle disputes over the venue of arbitration and the designation of arbitrators involving nationals of different countries. They will also help promote the uniformity of arbitration both within their own jurisdictions and within the arbitration network that composes the membership of the commissions of other regions; (d) These would facilitate businessmen in any part of the world to settle international differences between them as it is for them to settle disputes within their own country.

PORTS AND SHIPPING

A comprehensive legislation on major ports will be introduced in Parliament after the receipt of the report by the commission on major ports which is currently inquiring into their problems. The existing Motor Vehicles Act will also be reviewed in the light of discussions to be held in Parliament on the reports of the Keskar and Saraiya committees. This was disclosed at a meeting of the Informal Consultative Committee of Parliament for the Ministry of Transport and Shipping by the union Minister for Transport and Shipping, Dr V. K. R. V. Rao. Attention is being given to the development and better utilisation of the inland waterways in the country and the Ministry is contemplating the appointment of a committee to explore their potentialities and lines on which they need to be developed. The Minister told the committee that the Hindustan Shipyard Ltd, Visakhapatnam, delivered three ships during the current year. Serious efforts are being made to turn out four ships a year during 1968-69.

NEW POSTAL SAVINGS SCHEME

A new scheme of five-year fixed deposits with five per cent interest has been introduced with effect from March 15. Details of the scheme, which was referred to by the Deputy Prime Minister in his budget speech, are now available. Under the scheme, deposits in multiples of Rs 50 will be accepted in all post offices doing savings bank work. Each deposit of Rs 50 will be repaid after five years from the date of deposit together with interest at five per cent per annum, the amount repayable being Rs 62.50. The interest is not liable to income tax. Nomination facilities are also available.

An individual can deposit up to Rs 25,000 and two adults jointly up to Rs 50,000. The yield on the existing 12-year national defence certificates has been increased. Certificates purchased on or after March 1, 1968, and held for the full period of 12 years will be allowed an additional tax-free interest of Rs 5 on a certificate of Rs 100 denomination, raising the maturity value from Rs 175 to Rs 180. Certificates purchased before March 1 and held till maturity will also qualify for the additional interest on a graded scale depending upon the period to run till maturity. The ten-year defence deposit certificates purchased on or after March 1, 1968, and held till maturity will be given an amount of Rs 5 as tax-free additional interest at maturity. Certificates purchased before March 1 and held till maturity will also qualify for additional interest on a graded scale. It is not proposed to issue any new certificates. The additional interest will be paid when the certificates are encashed on maturity. On the five-year cumulative time deposit accounts of Rs 10 denomination (monthly deposits) opened on or after March 1, 1968, an additional maturity bonus of Rs 5, which will not be liable to income-tax, will be allowed. This will raise the maturity value from Rs 665 to Rs 670, representing an increase in the interest rate from 4.2 per cent to 4.5 per cent per annum compound. Existing five-year cumulative time deposit accounts opened prior to March 1, 1968, will also qualify for the additional maturity bonus on a graded scale depending on the period to run till maturity. The existing maximum limit on deposits in the cumulative time deposit accounts has been raised from Rs 300 to Rs 500 per month in the case of individuals and from Rs 600 to Rs 1,000 in the case of accounts held jointly by two adults.

PUMP MANUFACTURERS MEET

Inaugurating the annual meeting of the Indian Pump Manufacturers' Association in New Delhi on March 20, the Minister for Industrial Development and Company Affairs, Mr Fakhruddin Ali Ahmed, said that the industry had achieved targets for various five-year Plans well ahead of the dates fixed. At present it has a capacity of 350,000 pumps a year. The panel for pumps and compressors has estimated that the capacity will be sufficient to meet requirements for the next few years. It has, however, been found necessary to develop further capacity for a few special categories of pumps. The government has decided to take up the manufacture of these special pumps at a unit to be set up at Naini. The types and ranges of pumps to be manufactured by the new unit will only augment the facilities available in the country and will not clash with the manufacturing programme of the existing units. The pump manufacturers, on the other hand, have requested the government not to go ahead with the Soviet-aided Naini project since the industry has already developed sufficient capacity to meet the country's needs. Earlier the outgoing chairman of the association, Mr P. M. Shah, recounted the progress which the country had made and the problems it was facing. He suggested to the government to consider the feasibility of withdrawing the excise duty levied on the motors that go to drive the direct coupled pumps to help the farmers in their efforts to increase food production.

U.S. LOAN FOR DEVELOPMENT

The United States government released on March 21 a cheque for Rs 250 crores to the Government of India to help finance development activities in India during 1967-68. The amount is a loan from the rupees paid to the US for agricultural commodities supplied to India under the Title 1, Public Law 480 (Food for Peace) Programme. On March 8 the two governments entered into agreements for utilizing PL 480 funds by establishing three lines of credit totalling Rs 319.4 crores. The cheque is partly drawn against these credits and partly against an earlier credit. It will provide financing for more than a score of economic development activities related

to agriculture, power, transportation, labour, health, education and community development.

FRENCH LOAN OF \$30 M.

France has agreed to give India a loan of \$30 million for the current financial year. Half of this amount will be for the private sector and the other half for the public sector. Mr T. Swaminathan, India's Ambassador in Brussels, who was in New Delhi in connection with UNCTAD-II, has specially flown to Paris to negotiate the loan agreement. Mr Swaminathan has already submitted a memorandum to the EEC countries on repayments of loans that India has to make and the urgent steps they should take for rescheduling debts as well as larger purchase of Indian goods. The EEC's response to this memorandum is stated to be favourable.

EXPORTS TO E. GERMANY

Contracts for the export of goods worth Rs 12 million from India to the German Democratic Republic have been concluded at the Leipzig Fair. Of them, engineering goods accounted for Rs 6 million. Some of the important items for which business has been concluded are: Simac knitting machines, torches, regulating valves, tiggers, HMT grinders, printing machines, paper products, crushed bones, tea, coffee, shrimps, walnut, and coir yarn. Negotiations for further deals are continuing, specially for HMT machines, wire ropes, surgical instruments, etc. Besides, negotiations for export of textile goods worth Rs 20 lakhs and chappals worth Rs 1.5 lakhs are under way.

RAIL EXPORTS

The Hindustan Steel Ltd, it is learnt, has recently booked orders for supplying Bhilai rails to two new countries—Iran and Turkey. Iran has placed an order for 32,000 tonnes of rails and Turkey for 16,152 tonnes. Some more orders from Iran are expected shortly. Nigeria has also shown interest in Bhilai rails. No contract with it, however, has been signed as yet. The three main countries which have hitherto imported our rails are Ghana, Malaysia and Sudan. The total value of our exports in this line came to Rs 81.08 lakhs in 1965-66 and Rs 43.86 lakhs in 1966-67. During the eight months to November 1967 rails worth Rs 226.65 lakhs were exported.

U. K. BANK RATE CUT

The Bank of England reduced its Bank rate on March 21 from eight per cent to 7.5 per cent. The eight per cent rate was imposed on November 18 last year when sterling was devalued. It was Britain's highest rate for 53 years.

Danish Bank Rate Cut: The Danish Bank rate was lowered by half per cent to seven per cent with effect from March 19, 1968.

LIC Business in February: The total new business of the Life Insurance Corporation of India in February 1968 amounted

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to Rs 66.80 crores, involving 117,088 policies. This included foreign business worth Rs 84 lakhs. The total business completed by the corporation including foreign business, during the first 11 months of the current financial year amounted to Rs 662.80 crores, as against Rs 581.52 crores during the corresponding period of 1966-67.

Rourkela Pipes for New Zealand: The Rourkela steel plant has won another big export order for pipes from New Zealand against heavy international competition which included Japan's Pipe Manufacturers' Consortium. The total order amounts to 13,500 tons of Electric Resistance Welded (ERW) pipes in which Rourkela's pipe plant specializes.

Grey Cloth for UK: Free licensing of cotton textile (grey cloth) exports to the UK has been removed with immediate effect. Hereafter, the shipments to Britain will be regulated as per the scheme laid down by the Cotton Textiles Export Promotion Council, in order to ensure orderly flow of goods to the UK.

Exports to Libya: Business worth Rs 1 crore is likely to materialise with Libya as a result of India's participation in the Tripoli International Trade Fair. Already business worth Rs 5 lakhs for wire ropes, tyre, auto-parts, sprayers, mattresses, handicrafts, jute, tea, etc., has been concluded and negotiations for further business in these and other non-traditional items were under way. The fair closed on March 20.

Central Bank Board: In consonance with the government's social control measures, Mr Homi Mody will soon relinquish the chairmanship and the directorship of the board of directors of the Central Bank of India. He will be succeeded by Mr V. C. Patel, the present General Manager of the bank. Mr Dharamsey M. Khatau and Mr Chimanlal B. Parikh have resigned their directorships. Mr Tribhuvandas K. Patel (co-operative sector) and Mr B. V. Nimbkar (agriculture) have joined the board. Prof. R. J. Taraporevala will also be joining the board soon.

National and Grindlays Advisory Panel: The National and Grindlays Bank has constituted an advisory panel in consonance with new social control measures. This was stated in Calcutta, recently, by the bank chairman, Lord Aldington. Headed by Mr G. R. Kamat, a former Secretary of the Planning Commission, the other members of the panel are: Mr Banamali Das, Mr R. T. Popawala, Mr D. R. Morarji, Mr A. K. Sivaramakrishnan, Dr Dharm Narain, and Mr P. Ramaswami. The terms of reference of the board have been agreed to with the Reserve Bank.

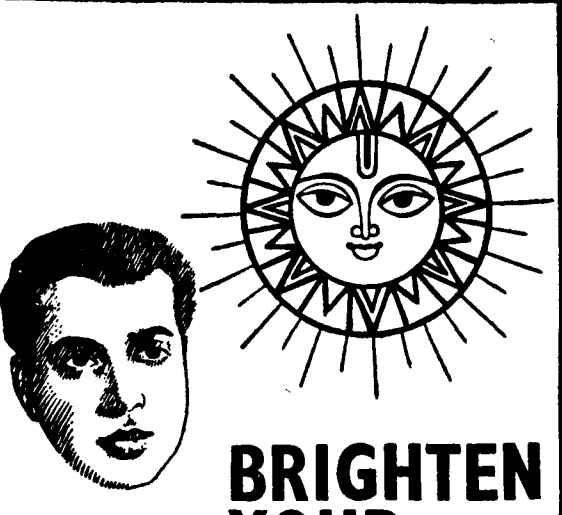
ESSO's Giant Tanker: The Bombay Port Trust has permitted Esso Standard Inc., to berth in the Bombay harbour their giant tanker of 45,000 DWT. As a result, Esso will be saving annually up to Rs 50 lakhs in terms of foreign exchange. Hitherto, single crude consignments were of the order of 36,000 tons. The Bombay Port Trust has remodelled berthing facilities to accept large-size tankers which would result in substantial savings of foreign exchange.

Jumbo Jets for Air-India: The Air-India has decided to purchase two Boeing 747 aircraft (jumbo jets). This is reported to have been disclosed by Dr Karan Singh, Minister for Tourism and Civil Aviation, at a meeting of the Informal Consultative Committee of Parliament. The operational cost of these aircraft will be 20 to 25 per cent less per seat per mile as compared to the Boeing 707 at present in use. The Indian Airlines is also examining the feasibility of going in for a new type of aircraft to augment its existing fleet to meet the growing demand from international tourists.

Erythromycin by Alembic: The Alembic Chemical Work. Company Limited, Baroda, has entered into an agreement

with the US firm of Eli Lilly International Corporation for the production in India of the broad-spectrum antibiotic erythromycin. The American firm will provide the micro-organism used to produce the antibiotic and will also pass on its erythromycin technology to the Indian company. Alembic will market erythromycin under its own label and will also produce the antibiotic for Eli Lilly and Co of India Inc. The Lilly product will be sold in India under the trade name Nlotycin.

West-German Farm at Almora: The union Minister for Food and Agriculture, Mr Jagjivan Ram, inaugurated at Almora in Uttar Pradesh early this month a 4,000-acre agricultural farm which has been set up with West German and FAO assistance. Initially, the Almora farm will confine itself to the intensive application of fertilizers and other means of production provided by West Germany. Later on, however, it will be developed into a full-fledged farm on the lines of the German-aided Mandi farm in Himachal Pradesh. Under the terms of collaboration, the West German government will supply 700 tons of fertilizers, which are to be sold to the farmers. The proceeds will be used for a revolving fund for the purchase of more means of production and other support measures. West German assistance will be complemented by supporting services like extension programmes and supply inputs like pesticides by the central government as well as the state government. The FAO will evaluate the results of the programme from time to time.



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K. M. NANJAPPA, Chairman W. SMITH, General Manager

Company Affairs

UCO BANK

THE UNITED Commercial Bank Ltd continued to make rapid strides in all directions whether it be in gathering of deposits or carrying the banking facilities to remote and unbanked areas or in extending credit to industry, trade or agriculture for furthering production or fostering exports. During 1967, the bank's deposits touched an all-time peak of Rs 215.14 crores, recording an impressive rise of about Rs 25 crores over the preceding year. To augment further its resources, the bank continued to follow a vigorous branch expansion programme and during 1967, 28 branches were opened—18 at banked centres and 10 at unbanked centres. At the end of 1967, the bank had a vast network of 276 branches, with 227 branches functioning in banked areas and 40 in unbanked areas within the country and nine branches overseas. The bank's advances rose by Rs 9.07 crores to the handsome figure of Rs 136.70 crores at the end of 1967. But for the selective credit control measures and recession in industry, the bank's advances in 1967 might have expanded at a steeper rate as witness the sharp rise of Rs 25 crores in the previous year. Consequently the credit ratio was a shade lower at 64 per cent as compared with 67 per cent at the end of 1966 and 70 per cent a year earlier. The bank's income went up significantly by Rs 1.85 crores to Rs 14.70 crores. But the handsome rise in earnings was neutralised of a major extent by the appreciable rise of Rs 75 lakhs in salaries and wages. The net profit for the year after providing for taxation and meeting all charges and including Rs 3.42 lakhs brought forward from the previous year amounted to Rs 89.31 lakhs. The interim dividend paid at the rate of six per cent absorbed Rs 16.80 lakhs. The amount transferred to reserve fund was enhanced by Rs 90,000 to Rs 18.20 lakhs while the appropriation to special reserve fund was stepped up by Rs 2.8 lakhs to Rs 22.40 lakhs. The amount set aside for payment of bonus to staff was raised by Rs 3 lakhs to Rs 30 lakhs. This leaves an unappropriated amount of Rs 1.91 lakhs which has been carried forward to the next year's accounts. The directors have recommended the payment of a final dividend of eight per cent, making 14 per cent for the year. This will claim Rs 22.40 lakhs and it will be paid out of the special reserve.

In the annual statement circulated to the shareholders, the Chairman, Mr R. B. Shah, has asserted that the Uco Bank had already fulfilled in a very large measure all the basic tenets as laid down in the Banking Laws (Amendment) Bill, 1967. For instance, amongst the Indian banks, the Uco Bank pioneered in financing India's foreign trade and is determined to give a lead in future also in the provision of special kinds of assistance to exports. As for agricultural finance, the bank has long been identified in the financing of sugarcane cultivation and seed farms, of tea and coffee plantations and by extending credits to government for the procurement effort as well. Besides, the bank had given liberal assistance to many a small-scale industry with the result as much as six per cent of the bank's total credit went to small-scale industry.

The budget proposals as well as the lower Bank rate, according to the chairman, were calculated to give a psychological boost to the economy. He expects the upturn in industrial activity to come about towards the end of the year or so. He has exhorted the private sector to get ready with schemes of increasing capacity and also urged the government to expedite the process of recovery with fresh reliefs and incentives. He is confident that the banking system will not be found wanting in speeding up the economic recovery.

While addressing newsmen in New Delhi last week, the chairman disclosed that the bank is planning to advance 10 per cent of its new deposits for agricultural operations.

So far the bank has generally advanced loans for commercial crops in Madras. Now it has decided to give loans mostly for good crops and extend the facility to Rajasthan, Gujarat and Punjab to coincide with the bank's silver jubilee celebrations. The bank will make direct payments either for the purchase of fertilizers, seeds or tractors by the farmers. One of the conditions of lending is that the recipient must not be borrowing from a co-operative society. The bank is also considering the proposal made to the bank by some states such as Mysore to adopt villages to reclaim agricultural land. Another scheme still in the "thinking stage" is to advance house-building loans in urban areas.

BANK OF BARODA

Significant progress has been reported by the Bank of Baroda Ltd during the year ended December 31, 1967, with deposits, advances and profits recording substantial improvements over the preceding year. Deposits rose to an all-time high of Rs 275.04 crores, registering an increase of as much as Rs 25.08 crores over 1966. Advances jumped to Rs 175.65 crores from Rs 153.76 crores in the previous year. The net profit for the year 1967, after providing for taxation, including Rs 1.25 lakhs brought forward and after taking Rs 26.81 lakhs towards depreciation on buildings and furniture, amounted to Rs 93.42 lakhs as compared with Rs 91.25 lakhs in the previous year. The interim dividend declared at the rate of 16 per cent claimed Rs 16 lakhs, the same as in 1966. The amount transferred to reserve fund was raised by Rs 0.5 lakh to Rs 18.50 lakhs while a sum of Rs 21.50 lakhs was appropriated to the special reserve as against Rs 20 lakhs in the previous year. The amount earmarked for payment of bonus to staff was maintained at Rs 36 lakhs. The surplus of Rs 1.42 lakhs was carried forward to next year's accounts. The directors have recommended a final dividend for the year 1967 at the rate of 18 per cent on all equity shares issued prior to June 30, 1967, making 17 per cent per annum for 1967 and on the new issue of one lakh equity shares at the rate of 18 per cent per annum in proportion to the amount paid thereon for the period beginning from the first day of the month following the actual date of receipt of the application moneys. This will absorb Rs 21.50 lakhs and will be paid out of the special reserve.

With the opening of 39 new branch offices, the bank had 288 offices functioning within the country at the end of last year. Out of the 20 foreign branch offices as at the end of December 31, 1966, three offices in Tanzania were taken over by the Government of Tanzania as a result of nationalisation. A new branch was opened at Southall in the United Kingdom, carrying the bank's foreign offices to 18. In all, the bank had 306 branches within country and abroad.

BANK OF INDIA

The Bank of India has drawn up a scheme to finance agriculturists. It will have an all-India coverage and will be extended to all types of agricultural crops. Under the scheme the bank will provide short, medium and long-term finance to parties engaged in the agricultural operations and also short-term credit to manufacturers and distributors of agricultural inputs and implements for their marketing and distribution operations.

The short-term credit will be for a period of 15 months up to a maximum of Rs 5,000 per borrower for purchase of agricultural inputs such as fertilisers, pesticides and seeds. For security the borrower has to provide one or two sureties or arrange a simple deposit of title deeds to his land. Medium-

term credit will be for periods up to five to seven years to the extent of 75 per cent of the cost of the equipments subject to a maximum limit of Rs 10,000 per borrower. These advances will be secured by hypothecation of the equipments purchased or by sureties or mortgage of the borrower's and. Under the long-term credit the bank will provide loans up to 15 years and in deserving cases up to 20 years for financing agricultural development schemes involving large capital outlay. The principal security for these advances will be the mortgage of the borrower's immovable properties.

The bank has set up a separate department to look after its lending operations in the agricultural sector. In the current year it proposes to open 20 branches both in urban and rural areas.

CHARTERED BANK

In his statement to the shareholders of the Chartered Bank Group Mr W. G. Pullen, Chairman, has said that the recent devaluation of sterling has been the main preoccupation of British banks with high overseas connections. Happily, the losses incurred by the Chartered Group were offset to a considerable extent by exchange profits earned in other areas. According to the chairman, it is premature to make a realistic assessment of the impact of devaluation on future business or even the extent to which it has caused resentment in countries which have suffered losses on their sterling balances. But he sees no reason to be pessimistic about the bank's future profits.

Undeterred by the problems caused by the devaluation, the bank pursued throughout the year its policy of steady expansion. In addition to opening further branches in existing areas, the bank has obtained permission to start operations in South Korea where it will have the rare privilege and unique distinction of being the only European bank doing business. It is also resuming operations in Indonesia. It will take some time, however, before the deposit growth from the branches opened in the last two years begins to be felt in the bank's business.

After making the usual provisions and deducting minority interests in subsidiaries, the consolidated net profit for the year ended December 31, 1967, amounted to £2,127,379, an increase of £240,722 over the previous year, a result which must be considered to be very satisfactory in view of the difficult conditions experienced in many of the areas in which the bank operates. With the balance of profit brought forward of £678,619, the amount available for distribution came to £2,805,998 out of which £547,934 has been transferred to reserve funds and £130,000 to contingency and reserves. The interim dividend paid at 7.5 per cent in September 1967 absorbed £635,250. It is now proposed to pay a final dividend of 7.5 per cent, making 15 per cent for the year. The balance of £857,564 has been carried forward to next year's accounts.

NATIONAL & GRINDLAYS

In the statement circulated to the shareholders of National and Grindlays Bank Ltd, the Chairman, Lord Aldington, has said that the bank's consolidated net profit, after meeting all charges and making the necessary provisions, at £1,390,000 has shown a welcome improvement over the previous year. But in considering the year's profits, the chairman said, importance has to be given to its subsidiaries and associated companies in which the bank has invested more than £4.5 million in the last three years. The year 1967 saw a substantial improvement in earnings from this large investment which has yielded a return of over 10 per cent and holds out a promise of further increase in the coming years.

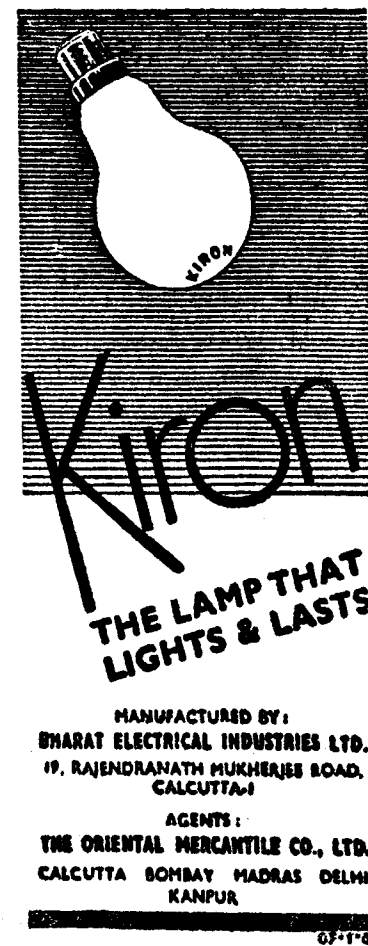
Taking the 1967 earnings of the bank by itself, exchange business continued to improve despite the switch in the pattern

of trade in the territories in which the bank is operating and despite the fall in important commodity prices. Net interest earnings were higher than in 1966 but not so high as in 1965 because of the increased cost of interbank money and refinance in most countries and because savings bank deposits that earn interest formed a higher proportion of the bank's total deposits. But the handsome rise in earnings has been neutralised by the appreciable rise in staff and other expenses.

In 1967, the bank opened 53 new offices, 28 of which were in Kenya, 17 in Uganda, 4 in India and 4 in Zambia. In all, the bank now has 139 branches and 84 sub-branches overseas. As the bank continued to expand its branch network and extend its services, the bank has considered it wise to seek the advice of distinguished men to assist the bank's territorial managers, especially in those countries which develop their economies. With this in mind the bank has set up advisory boards in India and Pakistan and advisory committees in Kenya and Uganda.

In India, the bank's deposits, in line with the general trend, rose at a much slower rate in 1967 by Rs 10.5 crores as compared with Rs 17.4 crores in the previous year. Nevertheless the bank continued to improve and extend its network. Four new offices were opened against applications made and approved in 1966. During 1967 further applications were made for permission to open 14 new branches, of which three have been refused while the remainder are still receiving consideration. The Delhi Lloyds sub-branch has been closed and the licence transferred to a new sub-branch which has been opened in the Diplomatic Enclave in New Delhi.

Having made successful arrangements to take in deposits for periods of three years and more, the bank has recently drawn up a scheme for providing medium and long-term finance to industry and as a further step towards providing



new services the bank has increased its underwriting business. Steps are also being taken to set up a new department in the bank's principal branches in India to provide financial advice to corporate customers and to arrange new issues.

HINDUSTAN LEVER

The directors of Hindustan Lever Ltd have recommended a final dividend of 30 paise per share, for 1967. Thus the total dividend for the year comes to Rs 1.40 per share, the same as in 1966. But it is payable on an enlarged capital as increased by the bonus issue of Rs 231 lakhs in October 1966. Hence the dividend for 1967 will absorb Rs 161.79 lakhs or Rs 14.11 lakhs more than in the preceding year.

It was a year of almost unprecedented difficulties for the company. Nevertheless sales rose by 10 per cent to Rs 93.28 crores. But the improvement in profits at Rs 516 lakhs before charging capital expenditure on scientific research and before tax was only marginal—an increase of Rs 2 lakhs over 1966. The quite severe price control on vanaspati, combined with stock losses resulting from the precipitous fall in oil prices, contributed to a lower ratio of profit to sales turnover, from six per cent in 1966 to 5.5 per cent in 1967. Profits after providing for taxation and allowing for capital expenditure of Rs 60 lakhs incurred on scientific research during the year declined by about nine per cent to Rs 200 lakhs from Rs 221 lakhs in 1966.

The company is poised for further growth in respect of both its existing and new products. Hence, the expenditure on scientific research at this juncture has been timely. Its research laboratory will also facilitate such growth by reducing its dependence on imports.

COCA-COLA

A smart rise in earnings by 13 per cent, record sales, a proposed two-for-one split in the common stock and a recommended increase in dividends were the highlights of the Coca-Cola company's working results during 1967. Consolidated sales in 1967 were up by Rs 49 crores (\$63.9 million) to Rs 790 crores (\$1043.1 million) while the consolidated net profit after providing for reserves, taxation and meeting all charges was higher by Rs 8.8 crores (\$11.5 million) at Rs 76.1 crores (\$100.5 million). Earnings per share for 1967 amounted to Rs 26.67 (\$3.52) as compared with Rs 23.64 (\$3.12) in the previous year.

E.I.D.-PARRY

It is gratifying to note that EID-Parry Ltd has been able to report a significant rise in turnover and profits especially during a period when almost all industries have been severely affected by the economic recession. The improved performance during the year has been made possible by several factors. Firstly, sugar results improved considerably owing to the larger releases for sales, higher recovery and better prices. Secondly, the increase in the sales of fertilizer mixtures over last year yielded larger profits. Coupled with this was the very satisfactory performance of the Ennore fertilizer factory and the consumer products and chemical imports divisions. These observations are contained in the annual statement of Mr H. V. R. Iengar, Chairman of EID-Parry Ltd.

The Ennore factory manufactured during the year 42,468 tonnes of ammonium phosphate representing an increase of 62 per cent over 1965-66. Though production achieved is 82 per cent of the rated capacity, with installation of two new compressors, the full rated capacity is expected to be achieved during the year. The expansion of the factory continued throughout the period under review and production of ammo-

nium sulphate has since commenced. Sales of fertilizer mixtures increased by 25 per cent and substantial improvements were also recorded in the production of superphosphate. With considerable improvement in the supply position of raw materials, production is expected to go up significantly during the current year. The factory of Coromandel Fertilisers has gone on stream and the substantial investment which EID has made in this project is expected to fetch rich dividends to the company in the coming years.

The company's activities in the cultivation and marketing of high yielding varieties of seeds continued on a modest scale during the year. A large-scale project covering a five-year period has been prepared and the first stage is expected to be in full operation by the end of 1968. It is also planning, during the current year, to broaden further the scale of its agricultural activities in order to give better service to customers.

The Nellikuppam factory is functioning well and an expansion programme to raise the capacity to 2700-2800 tonnes per day has been taken in hand. The project is expected to be completed by 1970-71. It has, however, been decided not to proceed with the scheme for producing soda ash and ammonium chloride due to the difficulties involved in securing raw materials on an economic basis. But the management has now under consideration several other new schemes and the shareholders would be made aware of the details at the appropriate stage.

INDIAN ALUMINIUM

Indian Aluminium Company Ltd has announced the success of its rights issue of new ordinary shares to raise Rs 6.4 crores. The subscription lists have been closed as scheduled. These shares were offered on a one-for-one basis to shareholders of the company on record as on January 25, 1968, at a premium of Rs 0.70 per ten-rupee share. Of the issue price of Rs 10.70 per share, Rs 3.50 was payable on application towards par value.

MADRAS FERTILIZERS

The Rs 55-crore fertilizer complex set up by the Madras Fertilizers Ltd is designed to manufacture 600,000 tonnes of different varieties of fertilizers annually. The project is a joint venture of the Government of India and Amoco India Inc. which is a subsidiary of the American International Oil Company which again is a wholly-owned subsidiary of Standard Oil Company (Indiana). The factory will spread over an area of 330 acres in Manali village, near Madras, adjacent to Madras Refineries Ltd. The plant will have an installed capacity to produce per day 750 tonnes of ammonia, 885 tonnes of urea and 1,100 tonnes of complex fertilizers. At the full rated capacity the realisations from sales will be of the order of Rs 50 crores per annum.

The company has entered into a contract with Chemical Construction Corporation (Chemico) of the USA for the processing, design and construction of the plant. The process design is being done at Chemico's New York office. Engineering design for segments of the plant is being done both in the United States and Japan. Chemico is collaborating with Tata-Ebasco for detailed engineering, execution of civil works and indigenous procurements. The entire plant is scheduled to be completed and commissioned by January 1970.

A terminal for the storage of phosphoric acid, which is one of the principal raw materials, is being constructed at Madras Port at a cost of about Rs 60 lakhs. Phosphoric acid, which is presently being imported, will be stored in the tanks built at the terminal before it is shipped to site. The main

raw material, naphtha, will be supplied by Madras Refineries Ltd.

The total project cost is estimated at Rs 55 crores, out of which the foreign exchange component will be of the order of Rs 23 crores. The plant when completed will be the largest of its kind in India.

According to the first annual report, the pre-incorporation expenses of the company amounted to Rs 93,910. The total expenditure on construction during the period December 8, 1966, to June 30, 1967, including liabilities aggregating Rs 12.24 lakhs, was of the order of Rs 13.17 lakhs. The liabilities include a provision of Rs 10.52 lakhs for meeting the amount due to Amoco India Inc. for expenditure under the technical assistance agreement signed between the company and Amoco India Inc.

ADITYA MILLS

Aditya Mills Limited is offering for public subscription 50,000 equity shares of Rs 10 each and 5,000 redeemable cumulative preference shares (second series) of Rs 100 each, carrying an interest of 9.285 per cent per annum. The subscription list opened on March 28 and will close on April 2 or earlier at the discretion of the directors but not earlier than April 1, 1968. The public issue is fully underwritten.

The company is running a textile spinning mill at Kishanagarh in Rajasthan, the present installed capacity being 25,000 spindles. It has obtained permission for expanding its capacity by 12,000 spindles. However, for the time being, only 10,000 spindles are proposed to be added. The company hopes

to complete the expansion programme by the middle of the current year. The proceeds of the present issue will be utilised to meet a part of the cost of the expansion scheme.

R. H. WINDSOR

R. H. Windsor (India) Ltd has successfully completed the manufacture of a new model SP 12 single screw fully automatic injection moulding machine. The first machine of model SP 12 has already been delivered to Messrs Bright Brothers Pvt Ltd. Talking to newsmen in Bombay last week, Mr R. E. G. Windsor, the Chairman and Managing Director, said this model would be the forerunner of three further models to be produced this year at the company's factory at Thana. The injection capacity of these new machines would range from 79 grams to 1407 grams.

The company has also successfully completed the 100th model SH 3 auto injection moulding machine. The first machine was manufactured in its factory at Thana in early 1965 and in the past three years it has delivered over 250 machines. Thus within a short span of three years the company has progressed tremendously in the manufacture of a wide range of highly sophisticated machinery for the plastics processing industry.

The company is manufacturing the Windsor range of machinery under an exclusive licence and in collaboration with R. H. Windsor Ltd of the UK. The indigenous content varies from 82 to 96 per cent and the price is almost the same as the imported machinery. Its annual turnover currently is around Rs 60 lakhs and it has a capacity to produce 100 to 150 machines a year.

John Kenneth

Galbraith

(Author of *The Affluent Society*)

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COMPANY MEETINGS



SHRI K. P. J. PRABHU

CANARA BANK LIMITED

(Regd. Office : Lighthouse Hill, Mangalore-1)

The following is the statement to Members by Chairman, Shri K. P. J. Prabhu, delivered at the 62nd Annual General Body Meeting of the Members of the Bank on March 21, 1968, at the Registered Office

ACCOUNTS

The audited Balance Sheet as at 31.12.1967 and Profit and Loss account for the year ended that date are already in your hands. You will be glad to note that they reflect steady and all-round progress which the Bank has assiduously maintained from year to year with the co-operation of customers, shareholders and staff. The progress can also be regarded as satisfactory when viewed against the performance of banks as a whole, and in the context of the vicissitudes in the economic and financial spheres which affected the working of banks during the year.

SOCIAL CONTROL

With your leave, however, I propose not to dwell at length on the data in the financial statements which are already before you as they are self-explanatory, or on the changes in the banking scene during the year which have received excellent press coverage and therefore hardly need repetition. Rather, you would, I fancy, like me to review the working of the Bank in the light of the new role expected of banks, namely, as instruments for serving social objectives which have special importance for a developing but economically backward country like ours. In a nutshell, these objectives, as you have seen enunciated, are—avoidance of concentration of economic power among a few, providing banking facilities to and mobilising savings from rural and semi-urban areas which have dearth of such facilities. In the extension of credit, increased assistance is suggested to small borrowers, entrepreneurs of integrity, sectors of national priority including agriculture and to exports which earn foreign exchange for the national exchequer.

These objectives are not new to the Canara Bank. In fact, you will have noticed that practically all these were the very objects, or may I say the founding principles, of our illustrious founder who started the Bank sixty-two years ago, and have remained the guiding principles in the Bank's working to this day. It is recorded history that he began the Bank with a small capital of Rs. 54,045/=-, all collected from friends belonging to the middle class, for the avowed purpose of giving loans at low rates of interest to small traders having capacity and integrity, but little capital to invest. They were the entrepreneurs of those days and indeed are even today. When the Bank grew and fresh issue of capital was made, the tradition continued of offering shares to friends and patrons in the new areas of the Bank's operation. It is common knowledge that in 1956, the Bank's Golden Jubilee year, when the idea was still comparatively new in the country, and at four subsequent issues, the Bank offered equity shares to its staff and provided various concessions, to encourage the widest possible participation.

Now, out of a total of 8,396 shareholders, as many as 7420 or over 88% are small holders owning holdings below

Rs 2,500/= each. This broad based character, the antithesis of concentration of economic power, has endured throughout. It is seen reflected also in the successive appointments you have made to the Board, of men drawn from the professions, or from the merchant community, whose chief qualifications have been integrity and a sense of social purpose.

RURAL BIAS

Symbolic of the bank's predominantly semi-urban extraction and background, it may be recalled that the first branch it opened was in 1926 at Karkala, a small town in the South Kanara District of Mysore State. And against the four branches it opened between then and 1936 in the cities of Bombay, Cochin, Kozhikode and Bangalore, it opened twelve in rural areas. The main objective of branches in cities was for better service to clients at mofussil branches, who had business with their counterparts in the cities. The expansion in the next two decades continued to be a judicious blend of rural/semi-urban and city branches. The expansion in the last category was mainly directed towards providing banking service in the evergrowing residential suburbs and extensions. It is necessary to mention here that with most of the big banks, the opening of branches in centres other than metropolitan and industrially developed areas started as late as around the turn of 1960 and not earlier. That your bank has still retained its hallmark of service to small towns and villages in particular is indicated by the fact that out of its 247 branches today, 40 are in places having population of less than 15,000, 36 in places with population between 15,000 and 25,000, 25 in places with population between 25,000 and 50,000, 21 in places with population between 50,000 and 75,000, and 12 in places having population of 75,000 and over but less than a lakh. These together constitute over 54% of our present branch network. Equally noteworthy is that in 29 small centres, ours is the only commercial bank operating. I have mentioned these statistics because we know from experience that places having populations of less than one lakh are still largely semi-urban in character offering considerable scope for development of industry and even public amenities.

I think it would be appropriate to recall at this stage that between the end of 1961 and the first quarter of 1964, your Bank took over nine smaller banks with branches predominantly in rural areas, as a part of the scheme of consolidation of the banking system. Particularly to be mentioned is the take over of the Pandyan Bank with its over 80 branches, a majority of which are in small rural and semi-urban centres.

Deliberately with a view to consolidate these taken over units, you will recall that we had gone slow thereafter in the matter of opening branches. Only 2 and 3 branches respectively were opened during 1965 and 1966. Even during the year under review, we opened only 7 branches, of which 4 are in rural and semi-urban centres. Only this year, after being

satisfied with the measure of consolidation that has taken place, and also in response to the call of the Reserve Bank to spread out branches in more rural and semi-urban areas, you will be glad to know that we have planned to open 24 more such branches, mostly in villages which have no banking facilities at all at present.

RURAL OPERATION : ITINERANT AGENTS

We are however aware that the main problem involved in going in for rural branches on a large scale is that of mobilising deposits in sufficient measure and soon enough while at the same time keeping costs down, as only then can we prevent their becoming a drag on resources. These is no prospect, if the experience so far is any guide, of these branches becoming viable in the near future if worked with a regular complement of staff. The branches would therefore need to be manned with the minimum of staff while at the same time more than usual efforts would be needed for spreading the banking message for deposit mobilisation. It is for this reason that recently I put forward the idea of operating through itinerant agents. The advantage is that we can take the assistance of local people of standing and influence, who can ideally serve the object of carrying the banking message to the rural areas.

I have in mind the harnessing for this stupendous and all important task, people, such as the village school teachers, patels, shanbhogues etc., attached to a nearby branch of the Bank who, even if they used their spare hours, may suit the purpose ideally. I would even go so far as to say that the itinerant agent being a mobile bank on two feet is to be preferred to the more sophisticated mobile vans on four wheels which I am afraid may be unsuited and uneconomical for large scale functioning in rural parts and at best can serve limited areas around the cities where they are based. Besides, the fact has to be reckoned with that rural folk are not very time-conscious, and to expect them to adjust their daily chores and agricultural operations to the fixed timings of the mobile vans is to ask for the impossible. For safe and economical transit between the village and the attached branch, I cannot imagine a better mode of transportation for the itinerant agent than the wide network of public transport already available in all the nooks and corners of the country. And, it is my confirmed belief that the large number of co-passengers form the best possible escort for such agent.

Another thing to be borne in mind about rural areas is that most of the money transactions take place at the village shandies (i.e. weekly markets) and these shandies are held on a particular day in each village, and a sensible system of rotation is in existence. This suggests that it is by making banking facilities available at these shandies that the banking needs of the rural folk would be met at the time and place where they need them. We are working on this idea, and by suitable modifications in the light of experience, I hope it will be possible to devise an effective yet economical way of serving rural areas in the near future.

You will also be glad to know that as a first step towards better mobilisation of deposits especially in rural areas, your bank has introduced a new scheme of deposit by the name "Janapriya Deposit". It is an adaptation of the term deposit scheme to suit rural conditions and is so devised that the depositor does not have to call on the branch for making the deposit or execute any papers. The scheme also enables using the services of itinerant agents for enlisting deposits. In view of its simplicity and since the deposits are found in round sums of Rs. 10/- which would be within reach of most people even in rural areas, we expect it will be possible to soon popularise this deposit far and wide.

POPULARISING BANKING

Educating the public of the benefits of banking is a continuous and longdrawn process. Apart from extension of prompt service, and personal contacts by bank's staff, which we emphasise, we have since the past several years been regu-

larly using the medium of exhibitions at fairs and festivals of local importance in various parts of the country. For example, over the last few months alone, we have taken part in five exhibitions—the Lion's Club Exhibition at Shimoga, Careers exhibition at Central High School, Bangalore, the Golden Jubilee Exhibition of National High School, Bangalore, a solo exhibition at St. Joseph's Commerce College, Bangalore and an exhibition branch at the Indian International Trade and Industries Fair at Madras. Large congregations of people are seen to visit our stalls, which, I may say with pardonable pride, have been winning laurels for the bank for the best display. The results, that have followed, have been rewarding.

Short films on the theme of savings have been produced and are being exhibited at centres where our branches operate. This effective visual medium is expected to spread the message of savings among all income groups who frequent the cinemas. We also expect to soon press into service the new medium of commercial broadcasting.

ESSENTIALLY THE BANK FOR THE SMALL MAN (OR WOMAN)

The duty cast on banks for enlisting small savings and deposits from rural areas brings me to yet another characteristic which your bank has happily retained since its beginning, in spite of phenomenal growth in recent years. I refer to its essentially being a bank for the small man. The number of deposit accounts of the bank at the end of 1967 stood at a new high of 8.40 lakhs. Of these as many as 6.03 lakh accounts were savings accounts. The average deposit per account amounted to Rs. 1,442/=-, and was Rs. 567=10 in the Savings Bank accounts, testifying to the fact that it is the numerous small depositors who constitute the mainstay of the Bank's deposit structure.

The composition of the borrowing accounts also bears out the predominant share of small borrowers in our total advances. Advances under Rs. 10,000/= comprised over 88% of our borrowing accounts, the average for all borrowing account being barely Rs. 15,634/=-. Advances to small scale industries, which is a priority sector, amount to over Rs 10 crores and their percentage to the bank's total advances is as much as 13.62%. Two note-worthy features of our advances to small scale industries may be mentioned here. Numerous have been the instances during the past decade of small industrial ventures and entrepreneurial units which have flourished since they came into our fold. Quite a few of them have outgrown their small beginnings to become large industrial units. Many of these export their products, and have added to the export potential of the country.

The other feature about our advances to small scale industries is that instances of defaults have been comparatively very few. Even during the worst of the recession last year, when small scale industries elsewhere complained of excessive inventories because of slackness in demand, delay in realisation of receivables etc., and were pleading with their bankers to extend the repayment schedule, units with us complained little. This I chiefly attribute to the sound policies pursued by the bank ever since we started financing small scale industries a decade ago, and the timely guidance extended to the units both at the time of grant of advance and subsequently. This I feel has had the effect of inculcating necessary financial discipline which had obviously stood them in good stead.

GUIDANCE AND INFORMATION SERVICE

In the light of our experience, we have now concluded to start a guidance and information service to help small industries and entrepreneurs who want to set up an industry. We have done this by starting our 'Industrial Information and Guidance Service'. This new wing will collect and make available information that is useful for setting up various industries, the procedural formalities to be complied with, assist preparation of project reports and loan proposals, suggest sources from which finance can be arranged etc. Guidance in regard to maintenance of accounts, tax problems,

labour laws, etc., will also be provided. On the 2nd Saturday of each month, the Chairman, Vice-Chairman and Senior Executives of the Bank make themselves available for discussion of any problems experienced by small scale industrialists, professionals, artisans, etc. We have had excellent response to this scheme, both from those intending to set up industries and from various Government and non-Government agencies which have assistance or information to provide. In this connection we have been able to secure voluntary offers of assistance from retired engineers and professional men of good standing, and we have also started locating sources of assistance and guidance from abroad. I am therefore sure, this new service, which helps to co-ordinate the various agencies, will form a vital link in bringing the bank and prospective small scale industrialists/professionals/entrepreneurs closer. The bank also expects in consequence to be able to further increase its credit assistance to this vital priority sector.

BEATING UNEMPLOYMENT

A closely allied problem to that of recession in industry is the spectacle seen today of engineering graduates who are unable to find proper openings. From a recent statement made by the Union Education Ministry, it is feared this problem may take alarming proportions in the next few years unless remedial steps are taken early. Being a national problem, it will of course require the conjoint efforts of both Government and non-Government agencies. Since these engineers are potential entrepreneurs if given proper opportunity and encouragement, this is a problem which banks too could tackle. A beginning has been made by your bank in getting together a band of enthusiastic young engineers, some of whom were either recipients of scholarships from our Jubilee Education Fund or were the users of our Book Banks, who have recently formed an 'Association of Self-reliant Engineers' under the informal guidance of our Jubilee Education Fund. The Association is expected to play a useful role in helping its members, who are inclined to set up an industry or workshop etc., of their own, by collecting and making available information on employment opportunities, or making arrangements for practical training in various specialised vocations. A proposal to see how best these young engineers could be helped in diverse ways, such as by the Bank serving as a liaison to put them in touch with various industrial concerns among our clientele, both for training and entrustment of any special assignments etc., is engaging the attention of your Bank. It is also proposed to utilise their services in due course in the bank's own specialised fields such as agricultural finance which might call for servicing and inspection of tractors, pumps, equipment, etc.

AGRICULTURAL FINANCE

You will be glad to know that your bank has also made a firm beginning in extending direct finance to agriculture. Proposals from all over the country are being received, a good number of which we have been able to undertake already. The loans sanctioned include those for tractors and pump-sets and other farm equipment, digging wells, fencing, land reclamation and development, construction of farm sheds, dairy and poultry, orchards, agricultural inputs like seeds, fertilisers, pesticides, etc., and also composite advances for intensive cultivation of larger sized farms. In this connection, we propose to work in depth in selected areas for intensive development rather than spread available resources too thinly to be effective. Our experience has shown that there is no dearth of progressive farmers and well run farms whose proposals for farm finance, if taken up by banks, can lead to a substantial increase in food production.

SOCIAL WELFARE

I now make a reference to what is perhaps the most unique and enduring facet of your bank's working, namely its continued efforts towards social welfare activities. This feature again is not of recent origin, but has characterised the Bank's working since its founding. Just as our Founder intended the Bank to be an instrument of amelioration of the

common man's lot, so also provision of education to those who could not afford it, and relief to the sick and the suffering were causes which were dear to him. These ideals, for which he dedicated himself, have influenced the Bank's activities throughout, and they took more concrete shape when, during its Golden Jubilee in 1956, the bank sponsored various welfare schemes. The Jubilee Education Fund, which under an arrangement with the Bank, grants loan scholarships every year to students of merit pursuing technical and professional courses, with no other security than merit, is an example. The loans are repayable in instalments when the beneficiaries start earning. More than 160 scholars have repaid their scholarships and 100 more have commenced repayments. Total number of scholars so far assisted number nearly 600 which is a measure of assistance which the education Fund has been rendering during these years. The need to make available costly technical books to students, who cannot afford them, led to the idea of starting book banks. This assistance is provided to students in 8 centres, and recently a book bank has been started at Hassan and one more is shortly proposed at Nagpur. It has been gratifying to the bank that the scholars, who have availed scholarships or the book bank service, have kept up close and filial contacts with the Bank, helping in running book banks and making donations of books and cash to the Education Fund.

The Canara Bank Golden Jubilee Staff Welfare Fund is another activity which, under an arrangement with the Bank, has been granting scholarships annually to children of the bank's staff for High School and Collegiate studies. Staff Housing loans on easy concessional terms is another important scheme started in 1956—at a time when not many banks and institutions afforded a facility of this kind. Since then 250 house building loans, aggregating to over Rs. 60 lakhs, have been given both directly and through the Employees' Co-operative Housing Societies.

Also to be mentioned is the Canara Bank Relief and Welfare Society registered in 1961 which, among other activities, conducts a foundling home for destitute children, a toy centre, arranges annual summer vacation camps for school going children, provides medical assistance in villages, sick room utensils and assistance to handicapped children etc. Last year, the joint efforts of the Bank, the relief society and Bank's staff resulted in a donation of Rs. 30,000/= to the National Defence Council for the construction of six houses at Indira Nagar Extension, Bangalore, for the families of Jawans killed in action. The Bank has also been regularly donating sums for various national causes like defence, flood, famine and earthquake relief, to educational, social and religious institutions engaged in public service of one kind or other.

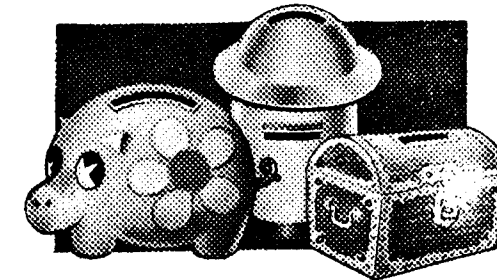
Thus, you will find that the thread which the Founder unwound into the policies of the Bank has through the years been woven into a bright pattern of service—to trade and industry—small and big—to agriculture, education and social welfare; for security through banking and for national development. All this began long before social control was ever thought of. This pattern of service has been so strong that today, sixty-two years and two hundred and forty seven branches later, the Bank continues to serve people in bigger and better ways through numerous and diverse facilities, with the same social purpose in mind.

CONCLUSION

In conclusion, let me quote from what I read lately—"Scratch the skin of any enterprise which has stood the test of time and change; you will surely find robust streaks of a persevering idealism. A compelling and sustained sense of values is an essential part of the enduring fibre of every such business". I believe that I can justifiably claim for your Bank the validity and appropriateness of measuring up to this standard.

Note : This will not purport to be a report of the Proceedings of the Annual General Meeting.

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KAMANI ENGINEERING CORPORATION LIMITED

Statement of Shri P. R. Kamani, Chairman, Kamani Engineering Corporation Limited on the occasion of the 22nd Annual General Meeting of the Shareholders of the Company held in Bombay on the 28th March, 1968.

Gentlemen :

I have pleasure in welcoming you all to this twenty-second Annual General Meeting of the Company.

Since we last met, India witnessed the 20th Anniversary of its freedom. While the country for its two decades of Independence, has much to show by way of several projects undertaken, having the welfare of the people as the pivotal consideration governing such projects, the sense of achievement, however, leaves much to be desired as the common man's plight remains the same if not worse due to shortages being experienced in essential commodities and the consequent rise in prices of such commodities.

The Industrial, Political Discipline

Apart from this, there are distinct signs of deterioration in the industrial discipline in many parts of the country, making it impossible to achieve that measure of productivity which is essential to give the necessary impetus to the Indian economy. At the same time, the political situation in the country is adding to these difficulties in a much bigger way. The official language issue, the boundary issue and even the water issue have thrown up in no uncertain measure the utterly unaccommodating nature of the various States. These issues, in their turn, have created indiscipline and chaos in various parts of the country making it impossible to achieve the cherished goal of integration.

Recession

Today we are in the grip of a peculiar situation prevailing in the country, viz. inflation and recession simultaneously. Since ours is a predominantly agricultural economy, the price rise in essential commodities could partly be attributed to the failure of two successive monsoons in the past, as I had the occasion to point out last year. With good rains during the year under review, the agricultural production is reported to be satisfactory. Let us earnestly hope that this will lead to the much needed revival of the economy.

The recession particularly, as I may mention, has affected our industry seriously as can be seen from the Directors' Report. The main result of the recession is that the Fourth Five-Year-Plan has been kept in abeyance and the orders, which were to materialise from this Plan are being delayed. This, as you have seen from the report circulated, has affected our order book adversely. Even on the orders already placed severe difficulties are being experienced in their execution as timely payments are not forthcoming due to insufficiency of funds with some of the State Electricity Boards.

I feel I must take this opportunity to point out that firstly in the absence of adequate transmission lines, the installed capacity for power generation remains underutilised and to that extent the power generating projects fail to make effective returns. Secondly, lack of adequate transmission facilities fail to provide the extent of infrastructure needed for the industrial development. In this context, I can only express my sincere hopes that the authorities concerned will appreciate these points in their correct perspective and arrange fund allocations on priority basis for timely execution of transmission line projects.

Jaipur Works

A significant achievement during the year under review was that we were able to complete our Jaipur Works in good time and commence production there from June 1967. This factory, as you may know, is equipped to produce 30,000 tonnes of towers per year with a provision for its eventual expansion to 50,000 tonnes per year. We had the privilege of having none less than our Dy. Prime Minister, Shri Morarji Desai, to inaugurate these Works on the 26th November, 1967, in the presence of a large and distinguished gathering including many foreign dignitaries. This occasion, I may mention, evoked wide publicity all over India.

Tower Production

The performance of the Company on tower production was quite satisfactory despite the effect of a 42-day strike faced by our Kurla Works earlier in the year under review, about which I had an occasion to make a mention in my last

statement. While the Jaipur Works commenced production in June 1967, nevertheless, its impact on the total production was not significant due to teething troubles which were, however, overcome by the end of 1967.

Exports

In spite of the general trend in the country of exports going down, we had the privilege to see that while during 1965-66 we could export only 7% of our production, during 1966-67 as much as 42% of our production went to the export market. I am glad to inform that our endeavours to penetrate into more and more markets continue unabatedly and I am hopeful of reporting better results in the next meeting.

Erection Activities

During the year under review, your company was engaged in the erection of as many as 18 transmission line projects spread all over the country and its performance has resulted into an increase of about 10% in turnover on this account, as compared to that of the previous year. A significant point to be noted is that during this year, we entered one of the major areas of diversification in construction activities by securing an important contract for heavy civil engineering works for the construction of an Underground Power House at Ukai.

Ropeway Project and Railway Electrification

The ropeway project was completed as expected during the year under review, and the railway electrification project progressed satisfactorily. In this connection it is worth noting that the work on the entire section has been completed since the close of the year and the whole section from Igatpuri to Nandgaon has been energised on 30-1-68 and handed over for transport purposes.

Road Roller

Road Roller sales were affected severely by the recession. Many projects requiring Road Rollers did not materialise for want of funds with the various Municipalities and Zilla Parishads, who are the normal customers for this product. Sales campaign, however, was maintained in full swing through a number of demonstrations and tests. We have specially developed a new model to suit Escort Tractors and this is also being marketed.

Research and Development

While our research during the year under review continues uninterrupted, providing us more and more economical designs and improvement in production and cost reduction, we commenced developing computer programmes for the complex problem also. These programmes have been tried and I am happy to report that the data we have obtained through such programmes is proving to be invaluable in the economic working of our unit.

Expansion

Apart from the capacity at Jaipur Works to which I have referred earlier, the installed capacity of Kurla Works was increased from 24,000 tonnes to 30,000 tonnes per annum by putting up additional equipment and the balancing machinery for fabrication. With this expansion, I am confident that it would be possible for us now to handle export orders more expeditiously.

Agency Activities

As you notice from the Directors' Report, orders received during the year under review through our agency activities was Rs. 265 lakhs which is exceedingly good in comparison to last year's figure of Rs. 155 lakhs. Apart from orders for insulators, which is the major item of our agency activities, we secured orders for Power Transformers to be imported from Italy, for Mysore and Andhra Pradesh State Electricity Boards. The value of these orders is approximately Rs. 110 lakhs.

Personnel

Before I conclude, I would like to express my thanks to the workers, members of the staff, officers and executives for their willing co-operation and sustained efforts towards the satisfactory performance throughout the year. I would also like to thank my colleagues here and all of you for evincing keen interest in the working and the progress of the Company during the year under review. Thank you.

BOOKS BRIEFLY

Commercial Ethics in Fixation of Freight Rates

Ocean Freight Rates And India's Exports: Indian Institute of Foreign Trade, New Delhi; Pp. 144; Price not given.

Reviewed by Prof. S. S. M. DESAI

The incidence of ocean freight rates on India's exports has become a subject of great significance in relation to export efforts of the country. This study is confined to the examination of liner freight rates and their incidence on the prices of non-traditional and new items of India's exports. A number of suggestions have been made regarding the introduction of promotional freight rates in view of the requirements of international trade of developing countries. This study which pertains specifically to India's exports at the present juncture, being the first of its kind, is extremely welcome, especially because the field to be covered is complex and bristles with difficulties.

In recent times the shipping conferences in India's overseas trade have effected general freight rises on several occasions on the ground that their costs of operations are going up. They could successfully do this because the shipping conferences operate practically under monopolistic conditions. The impact of a series of freight rises has been considerable on traditional, non-traditional and the new items of India's exports. The incidence is particularly heavy on non-traditional and new items like engineering goods, chemicals, rubber goods, leather products, sanitary wares, electric bulbs, toilet preparations, etc. This is a matter of concern because the share of non-traditional and new items in our exports has gone up from 3.5 per cent and 6.1 per cent during the first Plan period to 15.8 per cent and 10.4 per cent respectively during the third Plan period. This study gives a number of interesting illustrations to indicate the incidence of rising freight rates charged by these shipping conferences. On steel furniture to destinations in the Persian Gulf, east Africa and Thailand, the freight rates work out within the range of 16 to 30 per cent of f.o.b. value, and on buckets, water cans, water tanks at 40 per cent. Rubber hoses with incidence of freight rate at 47 per cent on c.i.f. value are losing markets in Ceylon, Thailand, Japan, the UK and the USA. In the case of asbestos cement, it constitutes 65 per cent for Glasgow and 106 per cent for ports in the UK, which means more than the value of goods themselves! On glass tiles it is as high as 80 per cent of f.o.b. value and the trade finds it difficult to compete with Japan and European countries. In the case of sea food from India to the USA, the freight rates are high in comparison with rates from Australia, New Zealand, South Africa and Japan to the USA. Similarly the freight differences in case of items like sodium bichromate, china clay, soda ash and caustic soda are so high that they seriously impair competitive capacity of Indian exports as against exports from the UK and continental countries to Australia, Japan, Singapore and Hong Kong. The devaluation of the rupee in June 1968 has further aggravated the situation as it amounted to fortuitous freight rise for Indian exporters.

Regressive Impact

It is obvious that such flat freight increases are generally regressive in their impact as they violate the principle of what the traffic can bear. Most shipping conferences charge freight either on weight basis or volume basis whichever works out higher without any heed to the principle of what the traffic can bear. The consequence is that the non-traditional and new items in India's exports with considerable scope for expansion are rendered uncompetitive on account of high freight incidence. Keeping in mind the mutual interest of the

shipping conferences and the shippers, it should not be impossible to arrive at a suitable rate for each item.

In some cases the freight incidence is particularly high on account of transhipment of cargoes involving extra freight and handling charges. This is generally so when the destination is in south-east Asia and west Africa. It should be possible with some imagination to provide direct services and the trade will pick up and grow once a direct service is provided.

Influencing Factors

On a given trade route, the level of freight rates depends upon "the structure, composition and volume of trade in both directions, the number of ports of call, condition of ports and the extent of non-conference competition, etc." This means there are several factors influencing the freight rates and the distance is of relatively minor significance. A number of commodities exported from India suffer from freight disadvantage in comparison with exports of similar items from developed countries. The study suggests that the shipping conferences should endeavour to accommodate the interests of shippers and exporters from developing countries like India. It pleads for mutual understanding and co-operation between shipping conferences and Indian trade and shippers. At present the conference system as an institution with all the built-in devices such as deferred system and pooling practices has become an organization largely out of tune with the requirements of trade of developing countries like India. Since the shipping conferences are historically in a strong and entrenched position, the initiative for the necessary adjustment should come from the conferences which should establish a permanent machinery to keep a continuous track on the problems and grievances of the shippers whose point of view at present is put forward through the Freight Investigation Bureau, a government agency.

The study makes a very interesting and practicable suggestion in regard to the deferred rebate system existing at present. The deferred rebate system which does not provide the shippers a direct quid pro quo and which is an unnecessary hangover from the past when there used to be cut-throat competition, comes in the way of happy relations between the shipping conferences and the Indian shippers. It is necessary that it should be replaced by developing a practice based on healthy commercial ethics which can induce the continued patronage of the shippers. The study suggests that the deferred rebate system be replaced by a new practice of giving rebates on a graduated scale instead of the existing flat rate, without the obligation on the part of the shippers to effect all their shipments exclusively by the conference vessels. This would provide incentive to the shippers to remain attached to the conference and effect more shipments of larger sizes. As in the USA, the opposition of shippers to the system of deferred rebate is hardening and it would be difficult for the conferences to hold on to it for long.

The existing system of freight determination is full of defects. The system has developed some built-up rigidities since there cannot be frequent revisions of rates. There is much discretion with the conferences in charging differential freight rates which may not be used judiciously. The freight rate structure is historical in nature and has been evolved on the basis of what was once thought the traffic would bear. This means a general revision of the tariffs warranted by the structural changes in the pattern and composition of trade and also technological improvements registered in the

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oceanic transportation services does not seem to have been attempted by the conferences. Further the maintenance of secrecy and non-publication of tariffs in the era of cut-throat competition has no justification today. But there is yet no change in the attitude of the conference members. This secrecy causes inconvenience to shippers. The basic structure of the existing tariffs of most conferences was devised on the basis of old colonial pattern of trade without any representation for the colonial countries. This means the tariffs are heavily biased in favour of the imperial interests and this old structure of tariff continues to bedevil the economic growth of developing countries requiring promotional freight rates. This aspect has hardly been taken note of by the shipping conferences.

The shipping conferences are in a more fortunate position to realise the economies of scale than the individual shipping lines outside the conference system. It would be comparatively easy for them to meet the challenge of rising costs and wastage of space arising out of unutilised carrying capacities of their ships. There is great need of publicising adequate information in regard to number of sailings, ports of call, availability of space, freight rates, types of packing required and several other matters.

Unfortunately the international character of the shipping conferences has made it difficult for governments of individual countries to exercise any control or supervision over them. Obviously there is need for an international agency to be constituted under the auspices of the United Nations for exercising control and vigilance over their operations.

Promotional Rates

The Freight Investigation Bureau has been doing useful work in promoting shippers' organization and in securing freight reductions in the case of a number of items of export. However, the non-traditional and new items of our exports require something more. They need promotional freight rates. Special schedules of rates have to be devised which would deliberately aim at encouraging the flow of goods of non-traditional character from developing countries. The Freight Investigation Bureau can work out these rates after making detailed examination of the cost structure of the products, the proportion of freight as well as other items of the infrastructure, demand position in the overseas markets, etc. Though initially this might mean some loss for the shipping conferences, in the long run the expected growth in the volume of trade in these items will more than compensate for the initial loss.

Expanding volume of international trade and increasingly favourable terms of trade can be more effective catalytic agent of economic development of backward countries than foreign loans which bring with them a number of political and economic complications. It is therefore unfortunate that the freight rates should hamper our export promotion efforts. The Indian Institute of Foreign Trade has done well to study the impact of freight rates on our exports and give some clear ideas about their incidence. Along with the consideration of non-traditional and new items, it would have been enlightening if the study had also analysed the incidence of freight rates on some of our traditional items of export. This would have enabled us to compare the incidence on different categories of our exports. The study seems to put much faith in persuasion. But the shipping conferences represent the last vestiges of imperialism and would not easily give in. The developing countries will have to make concerted efforts not only through the United Nations but also other means such as development of mercantile marine by individual countries or formation of an alternative conference with the Japanese collaboration. It is strange that the developed countries while helping in other ways the economic development of backward countries are still allowing the shipping conferences to obstruct the path of economic progress of these

countries. The main trouble seems to be our hazy notions about the whole subject and therefore our indifference to it. The Indian Institute of Foreign Trade has done well to bring out this pioneering study.

CONCEPT OF BUSINESS FORECASTING

Techniques of Demand Forecasting For Industrial Products:
by S. Balakrishna; Sunder Publishers, New Delhi-43;
Pp. 233; Rs 27 or \$5.

Reviewed by S. M. ANWAR NAINAR

Of late economics has been devising increasingly precise tools for business forecasts. These tools are employed in the industrial sector to assess demand. The demand forecasts done on proper scientific lines using the various methods in econometrics, constitute what may be termed as "Step One" in programming industrial development. Mr Balakrishna has the advantage of being an industrial engineer who is working in the field of applied economics as Technical Director, National Council of Applied Economic Research, New Delhi. He is thus eminently qualified to write on a subject like this.

The book under review explains in detail the various methods available for forecasting and discusses the problems of their application with illustrations drawn from several industries. In the chapter on 'Concepts and Methods', the author outlines the various methods of forecasting, viz: (a) the trend method; (b) regression techniques; (c) historical and geographical analogies; and (d) the end-use method.

The trend method is considered a "classical method" in economic forecasting and it is concerned with movements of variables through time. Regression techniques attempt to estimate a statistical series of the "dependent variable" by means of a fitted relationship, and the difference from other methods is that instead of using regularly spaced time intervals, it uses another variable called the "independent variable" to which the first is related.

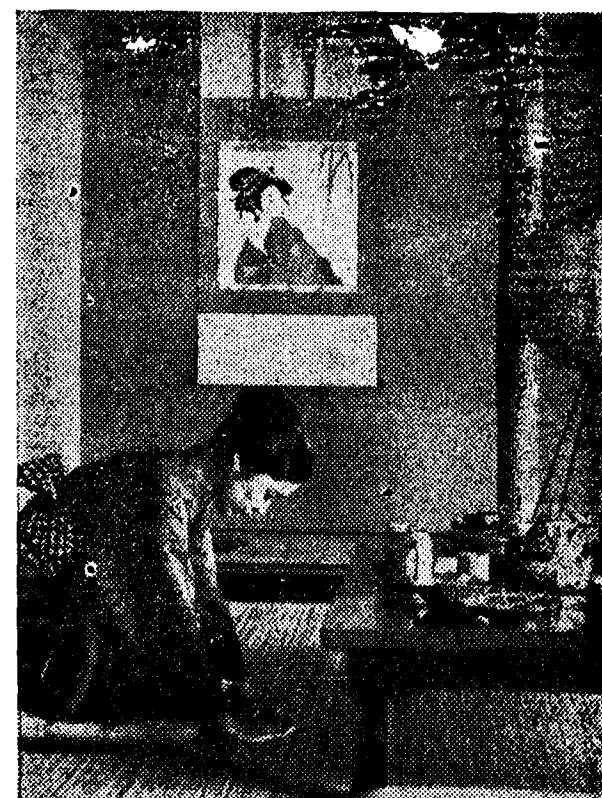
The historical and geographical analogy method is based on the principle of comparisons of the economic development of various countries. The end-use method for demand forecasting consists of four distinct stages of work. In the first stage it is necessary to identify and list out all the possible uses of the product in question. The second stage calls for establishing suitable technical "norms" of consumption of the product for which the study is made. Norms have to be established for each and every end-use, for which purpose the use of a questionnaire is necessary to obtain information from the users of the product. In the third stage the technical norms are applied to the output targets, and the final stage is to aggregate the "product-wise or use-wise" content of the item for which the demand study is made.

Mr Balakrishna has made an assessment of the merits and demerits of the various techniques, and a plea has been made for the end-use method which is shown to possess considerable theoretical and practical values in demand forecasting. Fifty important commodities have been chosen by the author for demonstrating how the different methods of forecasting can be applied in practice. In this context a large volume of time series data is presented extending over the last 15 years for a number of industrial products such as steel, coal, aluminium and copper, which are important to our economic development. This will be of immense help to the general reader and also for those looking for reference material. The author has competently summed up the various stages involved in forecasting work. However, he could have dealt in greater detail with the "Role of Judgment" by illustrating more fully the factors involved in good judgment which is required at all stages in demand forecasting.

This book is in several ways the first of its kind in our country, dealing with the techniques of demand forecasting on a very wide canvas with data drawn from various types of industries producing basic goods, intermediates, capital goods, etc.



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ROYAL DUTCH AIRLINES

RECORDS AND STATISTICS

Shipping Costs Studied

THIS IS a summary of the "Conclusions and Recommendations" which have emerged from a research project completed by the Indian Institute of Foreign Trade. The main research work has been published separately by the Institute and has been reviewed elsewhere in this issue.

For Consideration of Shipping Conferences

In recent times the shipping conferences in India's overseas trades have effected general freight rise on several occasions. This appears to be a continuing phenomenon since conferences claim that their costs of operations are going up continuously and despite frequent rise in freight rates, they have not yet been able fully to cover the losses on account of upward trends in the cost. It is true 'rising costs' is a phenomenon common to all industries, including shipping, in the post-war period. But the industries operating under fairly competitive conditions have continuously endeavoured to reduce costs by the use of cost reduction devices developed with the help of modern technology and scientific research, to the extent feasible and have raised prices of their products or services as a last resort. Shipping conferences by and large operate under conditions of monopoly and consequently the urge to meet the challenge of rising costs by use of modern technology and scientific innovations is very lukewarm, if not totally absent. Taking advantage of their monopoly position they find it administratively easier to raise freights than reduce costs for increasing profits or covering deficits in their revenue.

In contrast, the tramp sector of the industry operating under competitive conditions has been successfully lowering the unit cost of transporting cargoes by effecting improvements in the design, speed, methods of handling cargoes and shipping operations. The conferences in India's trade have not heeded the need to meet the challenge of rising costs by such innovations.

The impact of a series of freight rises effected by these conferences has been considerable on traditional, non-traditional and new items of our exports. The incidence is particularly heavy on non-traditional and new items like engineering goods, chemicals, rubber goods, leather products, sea foods, sanitary wares, electric bulbs, toilet preparations, fruits like mangoes, bananas, etc, to which the study has been confined.

In our total exports the share of non-traditional items has gone up from 3.5 per cent in the first Plan to 15.8 per cent in the third Plan period and the percentage of new items has gone up from 6.1 to 10.4. For sustaining these improvements and for encouraging the exports of these items suitable reductions in freights are called for. To take a few illustrations, out of many cases examined, steel furniture and safes exported to destinations in Persian Gulf, east Africa and Thailand, attract freights which work out to be within the range of 16 to 30 per cent of f.o.b. value. The incidence of freights on buckets, water cans, water tanks and drums is reported to be as high as 40 per cent on the f.o.b. value. Wheel discs, autosah generators and ignition equipments for automobiles are priced out from markets of Philippines, Thailand, South Vietnam, Iran and Malaysia on account of freight which is as high as 40 to 50 per cent. Rubber hoses, with the incidence of freight at 47 per cent on c.i.f. value are losing markets in Ceylon, Thailand, Japan, the UK and the USA. In case of asbestos cement sheets and pressure pipes, freight constitutes 65 per cent for Glasgow and 106 per cent for the UK ports. On sanitary wares the freights charged on measurement basis are four times higher than those worked out on weight basis. Glazed tiles when

exported to Thailand attract freight as high as 80 per cent on f.o.b. value and the trade finds it difficult to compete with Japan and European countries. The freights on glass products exported to Kuwait and Bahrain are as high as 80 per cent of the c.i.f. value and the trade considers that they should not exceed 25 to 30 per cent on the f.o.b. value. Even the reduced freight of \$35.25 per cubic metre on leather footwear components for US market is high in comparison with \$31.50 for two thousand pounds or 40 cubic feet charged from Japanese ports to New York/East Atlantic US ports. On a tonne of bananas costing Rs 500 the freight charged is as high as Rs 450 for Odessa, whereas the rival suppliers from Jamaica to Ecuador are reported to be paying Rs 300 per tonne. For henna leaves packed in bales, the freight charged for Tripoli is sh. 150 per cubic metre or thousand kgs while for leaves packed in boras (loose packing) it is sh. 905. On electric bulbs of thousand watts the freight rate works out at 44.6 per cent for Bangkok and 43.9 per cent for Kuwait. In the case of enamel-ware, on invoice value the incidence of freight is 60 to 100 per cent for Trinidad, 42 to 75 per cent for Hungary, 69 per cent for Malta, 50 per cent for Mogadiscio and Tripoli and 43 per cent for Mombasa. A concrete mixer weighing two tons occupying 13 cubic metres, of f.o.b. value of Rs 5,000, attracts freight of Rs 3000. Plastic products such as rattle toys bear 88 per cent incidence of freight when exported to Nigeria. Combs attract freight as high as 167 per cent for exports to Spain. For exports of sea foods from India to USA the freight rates are high in comparison with rates from Australia, New Zealand, South Africa and Japan. The importers from USA indicate that the high rates have increased the problems of sales and can lead to discontinuance of supplies from India because they are no longer competitive with supplies from other countries. The freight differences on items like sodium bichromate, china clay, whiting powder, marble powder and chips, soda ash, caustic soda etc are so high that they seriously impair the competitive capacity of Indian exports as against exports of these items from the UK and continental countries to markets in Australia, Japan, Singapore and Hong Kong.

Fortuitous Benefit

The devaluation of the rupee in June 1966 is generally considered as one more fortuitous freight rise which benefits the shipping lines operating in the overseas trades of our country. It is true that the benefit is not much to Indian lines which have to incur a large part of their expenditure in foreign currency. But the foreign lines which constitute the majority in these conferences have obvious advantage on items for which expenditure can be incurred in Indian currency. On the other hand, the Indian exporters who were expected to increase their business by cheapening of their products in terms of foreign currency have not yet been able to reap the full advantage of devaluation. In the twelve months following devaluation there has been a decline in our exports to the extent of \$193.5 million in comparison with exports realised during the preceding 12 months. Besides, the unit value of as many as 16 major items is reported to have suffered in exports. This has reduced the capacity of these items to bear incidence of high freight rates.

The high incidence of freights on the items indicated above, and many others, is on account of a series of general rise in freight rates effected by the conferences. Such flat increases in freights are very regressive in their impact since all items of exports do not and cannot share equally the fixed organisational and voyage overheads. They are directly in conflict with the accepted principle of what the traffic can

bear which should actually mean what the exports of a developing country like India can bear. When exemptions and concessions are given to commodities unable to bear the incidence of freight rise, they prove very short-lived since the next freight rise almost nullifies them.

On new items it is normally the practice of conferences to subject them to general cargo rates which are usually very high. As a matter of fact, they should offer rates at which more traffic of new items is attracted. The reasoning of the conferences is that a few parcels of a commodity destined for an odd port, may be on the route covered, involves extra botheration and expense. This is extremely narrow view of shipping operations. If in the past the shipping lines had not functioned with imagination and spirit of adventure inherent in their operations, much of the existing trade of the world would not have developed.

It is a practice with most shipping conferences to charge freight either on weight basis or volume basis, whichever works out higher. It is true that shipping lines as sellers of space should charge freight on measurement basis for items occupying more space. But the principle of what the traffic can bear has also to be kept in mind. In a number of cases this principle does not seem to be honoured and consequently the non-traditional and new items with considerable scope for exports are rendered uncompetitive on account of high incidence of freight. Keeping in mind the mutuality of interests of shipowners and shippers, a suitable rate for each such item should be arrived at. Such a rate shall lie well above the rate calculated on weight basis. At the same time, it shall fall well below the rate computed on measurement basis. If possible, the rate can be worked out on ad valorem basis, wherever practicable.

Need for Direct Service

In quite a few cases, the incidence is high on account of transshipment of cargoes involving extra freight and handling charges plus added risks of delays and damage. This is mostly in case of consignments with destination ports in south-east Asia and west Africa. It is granted that the provision of direct service without sufficient inducement of cargoes is a losing proposition for the shipping lines. But it is well within the realm of possibility, if shipping operations are conducted with a little more imagination, to provide direct services on selective basis. In the context of a vigorous export promotion policy of the country, it is not unreasonable to expect the trade to pick up and grow once a direct service is provided.

In many items, the quantum of exports is maintained or increased in spite of high incidence of freight with the help of direct and indirect assistance from the government and sacrifice of profits otherwise available to firms in the home market. The argument of the conferences that the exports of a particular item at existing rates are showing improvement and, therefore, there is no case for freight reduction is untenable. Freight reductions are required for sustaining the improvements in exports.

A number of commodities exported from India suffer from freight disadvantages in comparison with exports of similar items from developed countries like Japan, UK and the continent of Europe. It is recognised that on a given trade route the level of tariff rates will depend upon the structure, composition and volume of trade in both the directions, the number of ports of call, conditions of the ports, the extent of non-conference competition etc. To the extent there are differences on account of these aspects with regard to different routes, there is no fair basis of comparison of freights on identical items of trade. Quite often, the relative difference in distance of new routes is pointed out by the trade and lower freights

are demanded for the shorter route. There are several factors that go into the rate making and the distance factor is relatively of minor importance and, therefore, freight reductions cannot be demanded on that account alone. However, the relative freight disadvantage adversely affects the competitive capacity of an exporter in the market of a third country where his rival gains an edge. The conferences should, therefore, endeavour to remove the disparity in rates to the extent possible with a view to accommodating the interest of the shippers.

The conference represents a monolithic centralised agency of supply, whereas the demand for shipping services emanates from very divergent sources. The supply is predetermined and organised but the demand remains diffused and very much unorganised. Such a situation gives rise to a large gap of adjustment which can be satisfactorily bridged only by mutual understanding and co-operation on both sides, which appear to be lacking in the existing relationship of the conferences in India's trade and Indian shippers.

Monopolistic Position

The deferred rebate system and the pooling practices have considerably enhanced the monopoly position of the conference. This has inevitably resulted in the lack of responsiveness of these conferences towards the needs of shippers and requirements of the trade. The conference system as an institution with all the built-in devices has become an organisation largely out of tune with the requirements of trade, particularly of the developing countries. Consequently, the gap in the adjustment between the conference and the shippers has widened. Therefore, there is a greater moral obligation on the part of the conferences not only to take the initiative but also to bear the brunt of the process of adjustment. In matters pertaining to the incidence of freights which have become a major bone of contention between the two sides, the initiative to redress the grievances of the shippers has necessarily to emanate from them. At the moment this is being done through the intervention of the Freight Investigation Bureau, a governmental agency. There is obvious need that the conferences should have their own machinery to keep a continuous track on the problems and grievances of the shippers.

The consultation machinery for the conference and the shippers evolved by the Freight Investigation Bureau, based on discussion formula, in the ultimate analysis leaves the matter of freight rise to the discretion of the conference concerned. The result of such consultations, therefore, largely depends upon the attitude of the conferences and the spirit in which they are conducted. Apart from the ultimate outcome, such consultations serve a very useful purpose of highlighting the problems on both the sides. Unfortunately, in the past it was noticed that the representatives of Indian shippers had not been able to present their case well for want of sufficient data and information with regard to different lines of trade. Besides, it is also necessary that the presentation of their case, in order to be effective, has to be done by thoroughly competent and knowledgeable persons. The shipping conferences should also utilise the opportunity offered by the consultations to acquaint and educate the shippers and the government with regard to the complex task of conducting shipping operations with as much information as possible without being unnecessarily secretive. Their presentations in the past have failed to inspire confidence among the shippers and the government.

Another factor which has always come in the way of happy relationship between the two sides is the deferred rebate system which does not provide a direct quid pro quo to the shippers. The practice is an unnecessary hang-over of the past when the threat of cut-throat and destructive competition justified its existence. Most shipping conferences are well-entrenched in their routes and the threat of any effective competition challenging their monopoly position has practically disappear-

ed. The vestige of the past which forces the loyalty of the shippers should be replaced by developing a practice based on healthy commercial ethics which can induce the continued patronage of the shippers. It is, therefore, suggested that the existing practice should be replaced by evolving a new practice of giving rebates based on a graduated scale instead of existing flat rate, without the obligation on the part of the shipper to effect all his shipments in which he has interest, exclusively by the conference vessels. The rebate can be a certain minimum on the first shipment and it can gradually increase, say be half a per cent, for the second, third and subsequent shipments. For every subsequent shipment, the total rebate earned on the previous shipments becomes the minimum. Besides, an extra rebate of another half a per cent can be given if the volume of shipment exceeds a certain minimum quantity fixed by the conference. It is also envisaged that the conference can lay down the maximum limit of the rebate beyond which no further reduction in freight will be made. Such a system of rebate would provide incentive to the shippers to remain attached to the conference and effect more shipments of larger sizes. Of course, this will mean a little more sacrifice on the part of shipping lines but it will be certainly much less than the sacrifices called for in a situation of cut-throat competition. It is pretty certain that the opposition of the shippers towards the deferred rebate system is hardening and, if the American experience is to serve as a guide in this respect, it appears rather difficult for the conferences to hold on to it any more. As a matter of fact, a big question mark exists in the minds of the shippers about the conference system as a whole.

The existing system of freight determination based on tariff rates is full of several consequences as stated below:—

- (i) In the very nature of things, the system develops some built-in rigidities since there cannot be frequent revision and adjustment in the rates in response to the changing needs of the trade.
- (ii) The application of the principle of what the traffic can bear leaves much discretion with the conference in charging differential freight rates. Considering the fact that most conferences enjoy a monopoly position, there is no reasonable assurance that this discretion is used judiciously particularly when tariffs are not published and are treated with secrecy.
- (iii) The tariff structure of most of the conferences is historical in nature and the schedules have been evolved on the basis of what it was once thought the traffic would bear. Although revision and adjustments in rates have taken place from time to time in the case of individual commodities, a general overhaul of the tariffs warranted by the structural changes in the pattern and composition of trades as also advances and improvements registered in ocean transportation services, does not seem to have been attempted by the conferences.
- (iv) The maintenance of secrecy and non-publication of tariffs were justified in the era of cut-throat and destructive competition. In modern times when most of the shipping conferences are well entrenched in their trades, it is necessary to bring about a change in their attitude in this regard. The practice of maintaining secrecy about rates causes obvious inconvenience to shippers. It limits the scope and sources of getting the rates and becomes a hindrance to trade.
- (v) The basic structure of the existing tariffs of most



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conferences was devised on the basis of old colonial pattern of trade. The former imperialist countries were also leading maritime countries and, therefore, had an opportunity of forming exclusive conferences without any representation from the colonial countries. Therefore, the tariff structure was heavily biased in favour of the imperial interests. The former colonial countries have now become free to develop themselves but the old structure of tariff continues to bedevil the development of their trade. As a matter of fact, the trade of developing countries requires promotional freight rates. This aspect is hardly taken note of by any conference.

- (vi) The rates of freight are based on the traffic estimates of a conference for a given year. These estimates are generally made on the basis of past experience and broad indications for the future. Such estimates being conjectural in nature cannot serve as a sound basis for planning for sailings and determination of freight rates. The whole process, therefore, has necessarily to be dealt with on the basis of trial and error. In a situation like this the conference tends to be conservative in its approach and obviously errs on the safer side. The result would be that the number of sailings planned in advance would turn out to be less adequate than required by actual traffic and the freights pitched higher than warranted under the circumstances.

The shipping conferences with better financial resources, organisational and managerial skill and manoeuvrability, are in a more fortunate position to realise the economies of scale than the individual shipping lines outside the conference system. It is, therefore, not difficult for them to devise better ways and methods of rationalising their operations for meeting the challenge of rising costs and wastage of space arising from unutilised carrying capacities of their ships. Various pooling arrangements at best represent a crude method of doing so. These arrangements have come very handy to them in the absence of any real challenge of competition to their monopoly position.

There is great need of publicising adequate information with regard to number of sailings, ports of call, availability of space, freight rates, types of packing required and several other matters. The exporters in and around the port towns have easier access to this information but those from up-country centres face considerable difficulties in this regard. It is suggested that the representatives of various shipping companies stationed inland should be equipped adequately so as to feed necessary information to the trade and industry and similar provisions should be made at all important inland centres. Besides, the conferences must systematically organise their public relations with the industry and trade for removing misconceptions about their operations and also for educating the exporters as well as importers. This would inspire more confidence among the shippers who in turn would be more co-operative with the shipping lines.

For Consideration of UNCTAD

The conferences on various trade routes of the world, by virtue of their monopoly position and nature of operations, necessarily acquire the status of semi-public utility and, therefore, are under the moral obligation of providing regular and adequate services at reasonable rates. Unfortunately, their international character both in terms of membership and operations has made it difficult for governments of individual countries to exercise any control or supervision over them, except for what is prescribed by the Government of USA under the Shipping Act of 1916 in its foreign commerce. Obviously, there is need for an international agency to be constituted

under the auspices of the United Nations for exercising control and vigilance over their operations.

For Consideration of FIB

The Freight Investigation Bureau has been doing commendable job in promoting shippers' organisations and in securing freight reductions in case of a number of items of our exports. To serve as an effective catalyst a lot more needs to be done and for that it needs to be strengthened in terms of personnel with necessary expertise.

It has been noticed that in most cases, freight reductions or adjustments have taken place when rates happen to be discriminatory or anomalous as compared with rates obtaining on other routes of the world with regard to identical items of exports and to that extent the Indian exporters are put on par with their counterparts in other countries. Such equalisation of position by itself is very helpful to our exports. However, the non-traditional and new items of our exports require something more, and what they need is the system of 'promotional freight rates'. Special schedules of rates have to be devised which would deliberately aim at encouraging the flow of goods of non-traditional character, particularly from the developing countries. The Freight Investigation Bureau can work out these rates after making detailed examination of the cost structure of the products, the proportion of freight as well as other items of the infrastructure, demand position of the products in the overseas markets etc.

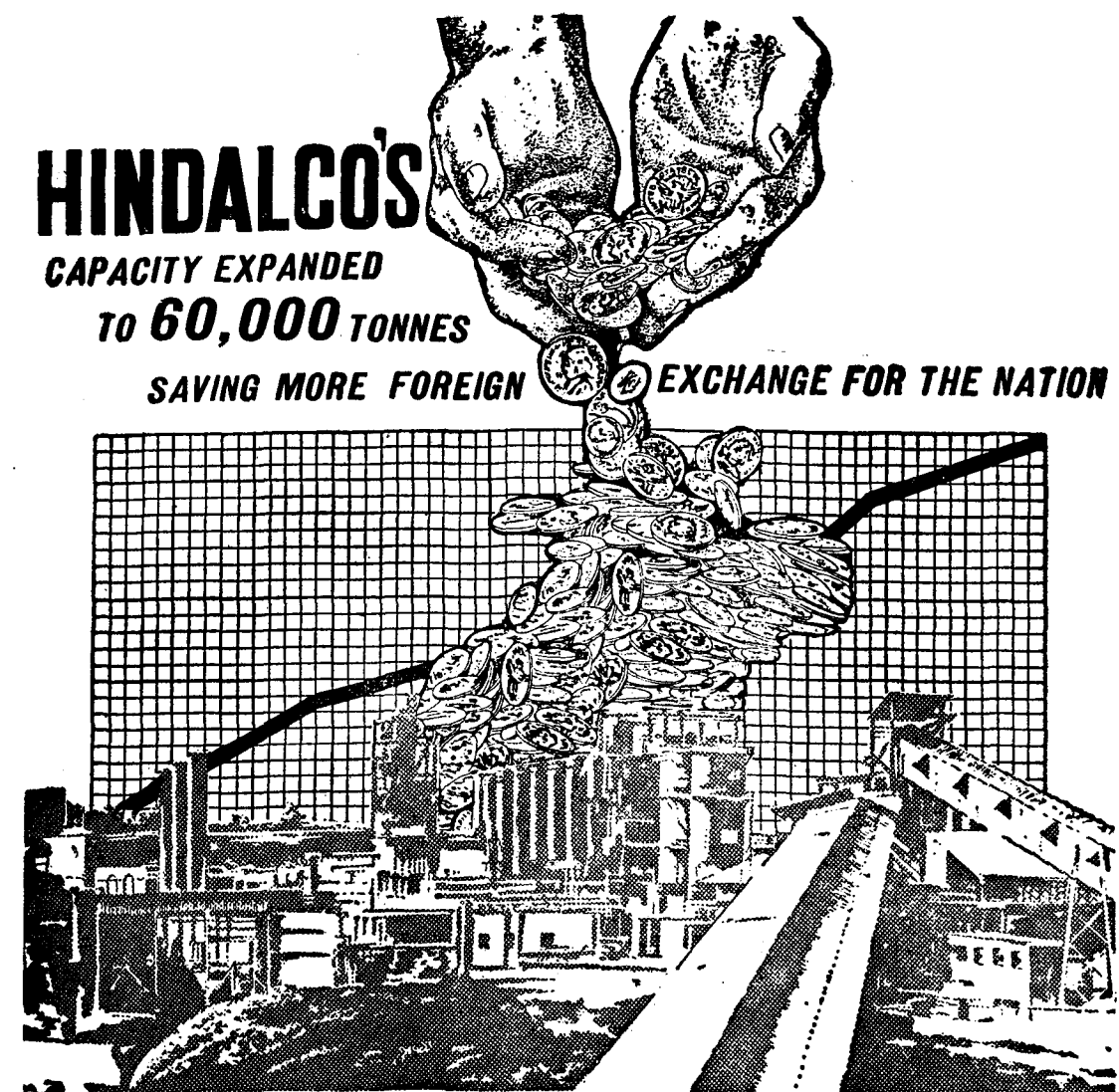
The promotional freights envisaged in this study would necessarily involve some sacrifice on the part of the shipping lines. In the long run, with the expected growth in the volume of trade in these items, the shipping lines will get sufficient compensation for the initial sacrifice made in this respect. However, in the short period a part of the sacrifice can be lightened by indirect governmental assistance, where necessary.

For Consideration of Export Promotion Councils

During the course of the field work necessitated by this study, considerable difficulties were experienced in collecting adequate and dependable information and data pertaining to f.o.b. costs, freight element in the c.i.f. prices, basis of freight calculations, comparative freight rates etc. It is, therefore, suggested that the various export promotion councils should endeavour to collect detailed information in this regard on a continuous basis. If such data are readily available, it becomes easy for shippers' organisation and the Freight Investigation Bureau to keep continuous track on the problem of freights. This will also help the shipping conferences in making the tariff rates more realistic by suitable modifications and adjustments.

For Consideration of Shippers

It is also necessary that the shippers on their part thoroughly acquaint themselves with the various aspects of the organisation and operations of shipping services so that there is greater appreciation of the problems and legitimate difficulties of the shipping lines. For example, they should appreciate the need for compressing the volume of cargo by suitable packing to the extent feasible so that the space in the holds of the ship is not wasted. It is also not necessary to make fictitious booking of space with several shipping lines for the same consignment and keep them guessing about the actual realisation of cargoes at the time of loading. The confusion, deliberate or otherwise, created in the nomenclature of the cargo has to be avoided. In all such matters and several others the shippers must display a greater degree of understanding and co-operation. The promotion of trade is a co-operative endeavour of the shippers and the shipping lines, and the adjustments and change of attitudes are required from both the sides.

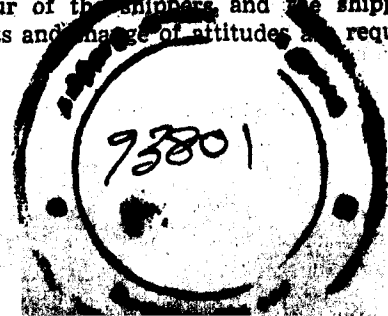


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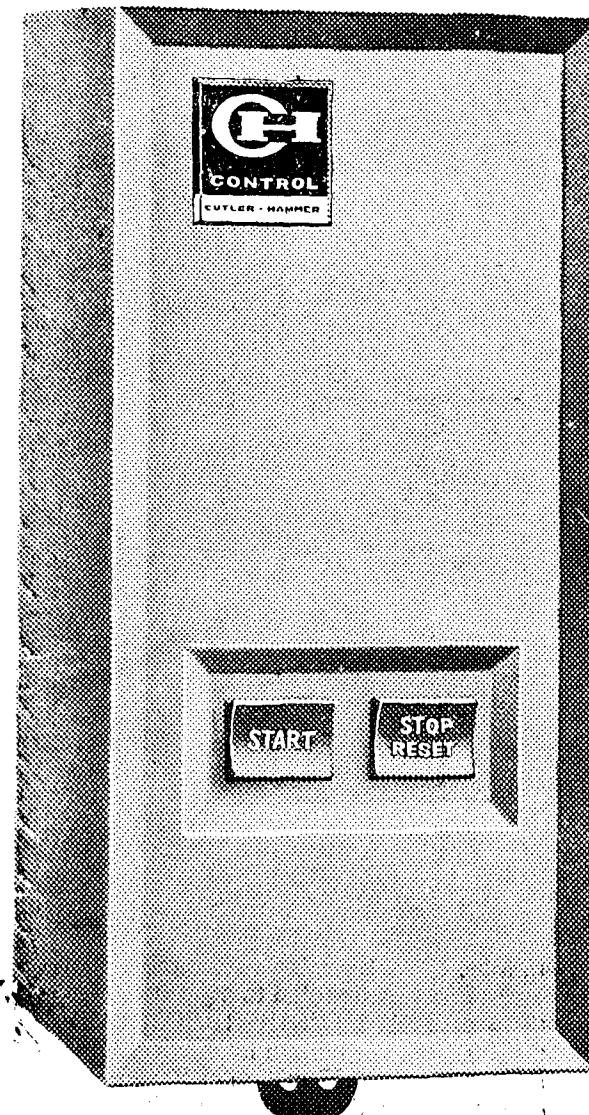
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