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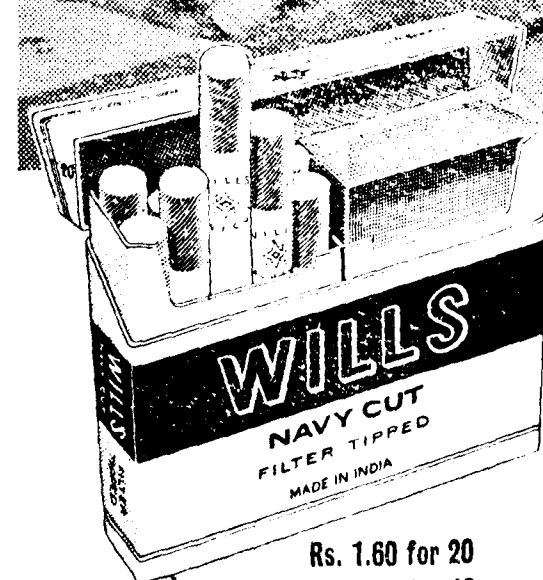
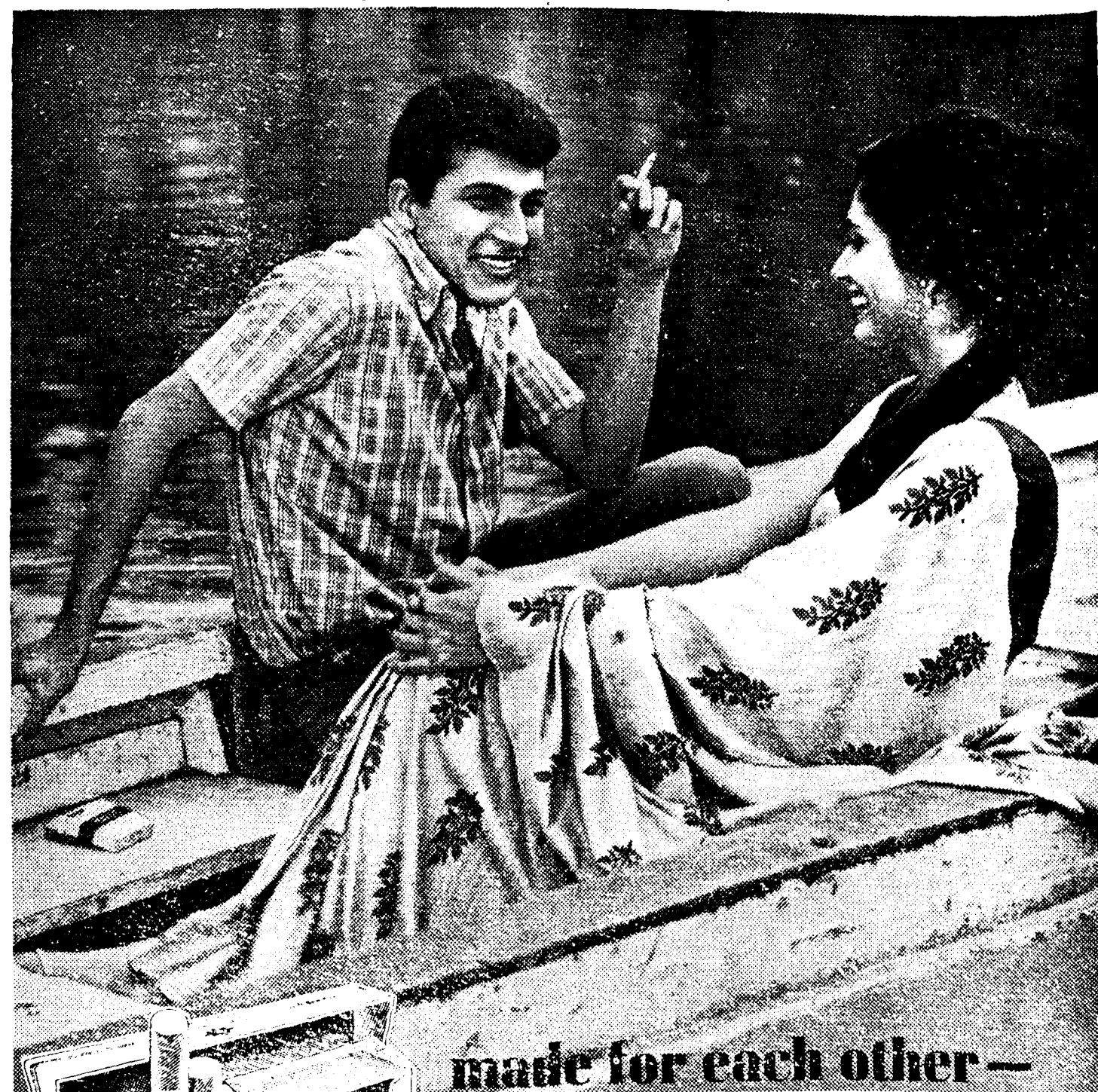
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The Dy. Chairman of the Planning Commission met the Dy. Prime Minister and Finance Minister to talk about resources for the 1968-69 Plan.



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Came the Rains

1 JAN 1968

THE DECEMBER rains seem to have produced in the government a state of excitement commonly associated with the monkey house. As is usual with excited monkey houses, there is also much confused activity of one kind or another on the part of all and sundry. Minister after minister is pointing to the prospects of good crops and is managing to suggest that his ministry's policies, if not the government's, are clearly to be given the credit. Very few of them, however, seem yet to have given thought to how the improvement in the agricultural situation this year could be made to go to work on reviving business activity and industrial expansion.

The Deputy Prime Minister had an occasion for sharing with informed public opinion such thoughts as he may have on the subject when he spoke to the Associated Chambers of Commerce some days ago. Mr Desai, however, was either unwilling or unable to avail himself of the opportunity. Instead he merely indulged in extremely academic discussion of the rights and wrongs of deficit financing. He said that since the price situation was still disquieting, the government could not agree to resort to deficit financing, as recommended by the Assocham President, to counter the recession which is particularly marked in industries which have come to depend heavily on government buying. Mr Desai, perhaps, was only partly to blame for the unreality of the discussion since the Assocham President, who raised the issue, seems to overlook, along with the Finance Minister, the fact that a certain amount—let us add, rather considerable amount—of deficit financing is taking place all the time whether the government likes it or not. It follows that the question is not whether there will be deficit financing or not. Given the government's spending policies and its demonstrated unwillingness and inability to reduce unproductive spending, there is bound to be deficit financing in the next financial year as there is in the current one despite Mr Desai's previous assertions that he was determined to avoid it. Viewed thus, the question simply is one of patterning or programming a part of the government's expenditure in such a way that continuity of production and employment is maintained in industries which have been affected particularly seriously by abrupt dislocations in government's development outlays. Important as this aspect of national economic management is, there is, however, a very much more significant area of economic policy demanding of the government the most thoughtful and imaginative exercise of economic statesmanship. This is the issue of fiscal policy and here a breakthrough may be as difficult as it is greatly and urgently needed since the government has become a prisoner of its prejudices and past decisions.

It has been repeatedly stated by the Prime Minister and others that our country's current economic ills are the consequence of the two border wars and two successive years of drought. We have always maintained in these columns that this version does not tell the whole truth. As a matter of fact, enemy action or acts of God have had far less to do with the breakdown in development which we are now witnessing than government policies in economic management particularly in the areas of taxation, control and regulation. By the same token, no revival of economic expansion could be expected until the government mends its ways in these matters. Unfortunately, not only is the government rigid in its thinking but industry has been reduced to being timid in putting forward its point of view. The committee of the Federation of Indian Chambers of Commerce and Industry, for example, could recently suggest only that Mr Desai should avoid taxing the country further in its next budget. Who says that businessmen are not easy to satisfy?

No Prospects of Fall in LIC Premium Rates

THE LIFE Insurance Corporation of India (LIC) has announced the results of yet another valuation—the sixth, to be precise—managing to keep the policy-holder still guessing about the reduction in premium rates. The question of any reduction in premiums, we are once again reminded, cannot be considered until the report of the actuaries on the detailed mortality investigation for the period 1961-64 undertaken by the LIC becomes available. Meanwhile, it is reassuring to learn that at least the investigation has been completed, and that the improvement in mortality experience as noticed during the earlier years has been maintained. In fact, during the inter-valuation period (from April 1, 1963 to March 31, 1967), the actual death strain under Whole Life and Endowment Plans was only 43 per cent of the expected death strain on the basis of the mortality table used in the valuation—Modified Oriental (1925-35) Ultimate Mortality Table.

Another determining factor, namely the average net rate of interest per annum, also showed a distinct improvement, being 5.04 per cent as against 4.51 per cent earned during the preceding inter-valuation period. This enabled the chief actuary of the LIC to use as the rate of interest for valuation 3½ per cent as against 3 per cent in respect of the two preceding valuations.

On the findings of the chief actuary, thus, both the mortality basis and the rate of interest used in the latest valuation leave sufficient margin for the emergence of future profits. And yet why has there been not even a hint at the prospect of lowering premiums? Following the last valuation there was at least an increase in the rates of simple reversionary bonuses in respect of policies issued by the LIC. But this time even this gesture has been denied to participating policy-holders.

What is this due to? The obvious reason is the rise in renewal expense ratio; for the biennium under review, this amounted to 15.33 per cent as compared to 13.32 per cent for the preceding valuation period. As a consequence, the provision for expenses and profits has had to be raised by 1.5 per cent of office premiums for participating policies and by one per cent of office premiums or sum assured per annum, as the case may be, in respect of others. Here, again, we are told, the basis is adequate and leaves a margin which may be relied upon to make the necessary contribution to profits in the future for distribution as reversionary bonuses. What the participating policy-holder wants is not just this assurance that there is sufficient margin for the emergence of future profits and for the distribution of the same rate of reversionary bonuses, though these are welcome in so far as they are there. What he is especially keen on is a lower rate of premium which seems continually to be eluding him.

What are the prospects? The present rising trend in the expense ratio is certainly not a passing phase, notwithstanding the prospects of a bumper harvest and a big fall in foodgrains prices. For it is not foodgrain

prices alone that enter into the cost of living of an insurance worker, and the prices of others, that is non-food items, do not look like coming down. Nor are prospects of a lowering of expenses by the large-scale introduction of electronic computers very bright, to judge from the opposition of insurance employees in particular and of white-collared workers generally to the introduction of these computers. The rate of interest also cannot be expected to keep on moving up indefinitely. So, the only factor that promises a more or less fairly permanent relief is mortality experience, but even this, it now seems, could go awry if unforeseen catastrophies like the recent earthquake in Koyana were unfortunately to overtake people residing in what they have been led for years fondly to believe is earthquake-proof. The irony is that the LIC authorities were not inclined to reduce premiums when things were most propitious and when they seem inclined, albeit due to some pressure, things are tending to become unusually imponderable. At this rate, a stage may soon be reached when, instead of expecting a re-

EASTERN ECONOMIST

wishes its readers

A HAPPY NEW YEAR

duction in premium rates, the policy-holder may be obliged to pray that the same rates be at least maintained but not raised!

Now, for some relevant figures about the latest valuation. The valuation, as stated earlier, covers two years from April 1, 1965 to March 31, 1967. As at the date of valuation, the following was the position.

Total number of assurance policies: 1212.2 millions (as against 1086.8 millions on March 31, 1965).

Sums assured and bonuses thereunder: Rs 4,724 crores (as against Rs 3,887 crores on March 31, 1965).

Increase in Life Fund: Rs 222.29 crores.

Surplus according to the valuation balance sheet: Rs 72.28 crores.

Total amount of profits available for distribution: Rs 74.05 crores.

According to the statutory basis for allocation of profits (under section 28 of the Life Insurance Corporation Act, 1956), the policy-holders' share worked out to Rs 70.44 crores and that of the central government to Rs 3.61 crores.

The following extract from the chief actuary's report on the financial condition of the life insurance busi-

ness of the LIC, including a valuation of its liabilities as on March 31, 1967, sums up the position:

"The biennial period under review witnessed an increase in the yield on the invested funds and also an increase in the expenses of management. Consequently the valuation basis has been altered to be in line with the current experience and trend. The one-fourth per cent increase in the valuation rate of interest is justified in view of the improvement in the interest yield and the need to cover the depreciation in the value of

The "Aggressive" Exporter

WHAT EXACTLY did Mr Morarji Desai, the union Finance Minister, mean when, in his address to the Associated Chambers of Commerce and Industry, on December 18, he advised businessmen to be "aggressive" in promoting exports? An exporter in our country recently adopted a novel method to get orders from Iran. This firm gave a blank tender form to the Tene-ran Electricity Corporation and asked them to mention a price lower than that of its competitors. The Corporation appreciated the Indian firm's anxiety to obtain business but disapproved of its procedure, saying that it smacked of the "political prices" offered by China in certain countries. Mr Desai, of course, was not thinking of such tactics when he urged businessmen to be aggressive. What he obviously meant was that they should become acutely aware of the vital role of exports in the country's economy and undertake this task with all their energy and enthusiasm. Mr Desai said that while it was the duty of the government to remove the impediments to exports, the main responsibility was that of private industry and private exporters who had to cultivate assiduously foreign markets. He suggested that our exporters must seek new outlets and constantly adapt products and designs to suit the tastes of foreign customers. He said that dynamic growth in exports could not be initiated or sustained on the basis of outdated products to the same markets.

It is necessary to point out, however, that, if our export promotion drive has not produced the expected results, it is largely because of the unhelpful policy of the Government of India, especially the Ministry of Finance. How, for instance, does Mr Desai expect businessmen to become excited about exports when his ministry does not release adequate foreign exchange for visits to foreign countries, for opening offices abroad, for undertaking market surveys, for organising effective publicity campaigns, and for similar essential activities? At present the foreign exchange allotted for business purposes is only about Rs 2 crores per year.

Businessmen complain that the Finance Ministry has been more generous in sanctioning foreign exchange for pilgrimages than for stepping up the country's export earnings. They have suggested that the government should set apart, for export promotion activities, foreign exchange equivalent to at least one per cent of the value of our annual foreign trade. This request is

the Corporation's investments which has resulted from the increase in the long-term rate of interest. The use of the above rate of interest in the valuation has resulted in release of surplus amounting to Rs 41.92 crores, of which the extra expense provision has absorbed Rs 24.57 crores. Thus the net release of surplus resulting from the changes in the valuation basis is Rs 17.35 crores which covers to that extent the transfers made to the investment reserve fund during the inter-valuation period."

by no means unreasonable, considering the fierce competition that our goods have to face in foreign markets.

Lack of sufficient foreign exchange not only handicaps our businessmen from being aggressive in promoting exports but sometimes it also lowers our country's prestige. For example, our embassy in Kuwait recently warned trade delegations and individual businessmen against giving "cheap and shoddy" presents to the Kuwaitis. "This is very undesirable", said the embassy, pointing out that in Kuwait living standards are very high and that even cooks earn between Rs 600 and Rs 1000 per month after meeting all expenses.

The Finance Ministry has a far greater responsibility than that of the Commerce or other ministries to ensure the competitiveness of our goods and encourage businessmen to put forth their best efforts to promote exports. So, if Mr Desai is really keen on achieving spectacular results in exports, he should not hesitate to modify the export duties, especially on jute goods and tea and adopt the necessary measures to enable



Could he have been serious?

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businessmen to get the benefits from the export promotion schemes with minimum delay and formalities. Industrial and trade associations have repeatedly drawn attention to the enormous delay and acute difficulties in obtaining the incentives to which exporters are entitled; and no less an authority than Mr P. A. Narielwala, President of the Federation of Indian Export Organisations, complained bitterly, at the annual meeting of the Federation held in October last year, about the great harm done to the export drive by red-tapism. He said that most of the benefits that the exporter was supposed to get under the various incentive schemes were only "paper benefits."

This is indeed a pity because if only the government would adopt a helpful and imaginative policy, it should not be difficult for our country to acquit itself creditably in the field of export. It is not adequately appreciated that though our overall export performance has not been satisfactory, we have been able to achieve significant results in many directions. For example, Mrs Indira Gandhi disclosed in the Lok Sabha on December 18 that our country earned foreign exchange of about Rs 1 crore by exporting atomic energy materials in 1966-67. We have also been able to export aircraft spares and engines, automobiles and parts, railway coaches and wagons, sailing boats, tractors, telephone equipment, cabs, cycle tyres and tubes and a variety of other sophisticated goods, including biscuits and confectionery.

The scope for increasing and diversifying our exports is certainly considerable and it is for the Govern-

ment of India to create the necessary climate for a vigorous export promotion drive. Between 1960 and 1965 the Republic of Korea was able to achieve an annual rate of growth in exports of 39.6 per cent, Taiwan 22.4 per cent and Hong Kong 10.6 per cent. Japan's record, of course, has been remarkable. Her exports rose by 26.6 per cent at a time when her economy was in the grip of a severe and prolonged depression. But our annual rate of growth in exports was only 4.8 per cent between 1960 and 1965.

The annual meeting of the Associated Chambers of Commerce and Industry did not pass a separate resolution on export promotion. But its recommendations on other subjects are intimately connected with exports. For example, the Associated Chambers strongly urged the need for improving productivity in agriculture. It was pointed out that ceilings and scientific management did not go together; large-scale farming was a pre-requisite of scientific management. The Associated Chambers advocated a thorough reorientation of fiscal policy by the government so that there would be a lowering the direct tax burden, and it suggested that, without a reduction in taxation, it would not be possible to revive the economy. It further urged the government to evolve a suitable machinery by which manufacturers could obtain a rebate of excise duties paid on the constituent items of cost for the goods exported to enable them to compete effectively in world markets. Whatever may be the governments revenue problems, it should realise that, if its fiscal policies do not help production, it will not be possible for our industries to play an aggressive role in export promotion.

EASTERN ECONOMIST

ANNUAL NUMBER 1968

This year's Annual Number of EASTERN ECONOMIST, which is just out, analyses the present state of the economy in terms of the recession and the prospects of recovery. It discusses the political and economic factors, both domestic and foreign, which have a bearing on the next stage of our planning and development.

A special feature of this Annual Number is a section devoted to the progress and problems of some of our major industries. An effort has been made in this section to define the specific issues facing these industries in terms of national needs and capabilities.

Profusely illustrated with charts and colour graphs and containing a useful compendium of statistics, the Annual Number is priced Rs 10 per copy. It is available at all the leading bookshops and can also be had directly from the office of EASTERN ECONOMIST, United Commercial Bank Building, Parliament Street, New Delhi.

New subscribers, who will enter their subscription for 1968 before March 31, 1968, will be entitled to the Annual Number free of cost.

Principles of Foreign Aid

CHESTER BOWLES

IN APPROACHING the subject of American aid to India, I think it is first necessary to outline the principles of economic development and foreign assistance. Then we shall see how the Indian experience with America fits into this framework.

There are, it seems to me, three principles which must be applied to assure the kind of rapid economic progress which has taken place in those new nations which have been growing most soundly and rapidly.

First, economic justice and greater production complement one another. It may be possible to achieve rapid advances in economic growth without economic justice, but no nation can establish economic justice without steadily increasing production. Whatever its ideology, no government can divide and re-divide non-existent wealth and still expect to improve the lot of the average citizen.

Second, incentives for cultivators and businessmen are essential to persuade them to work harder and to produce more. The tax system should be geared to stimulate those economic activities which contribute to faster economic growth and to penalize speculation and other forms of non-productive economic pursuits.

Third, a developing nation with a large agricultural population cannot succeed economically unless it gives the very highest priority to the welfare of the rural masses. Peasant cultivators should not be looked upon as a poverty-ridden drag on the nation. They should be considered potential customers who under favourable conditions can absorb all the goods and products that urban factories can provide. To meet these criteria, what is America doing to help India? Why is this help being provided?

In the last fifteen years the American people have provided India with \$3,044 million (Rs 2,283 crores) in development loans and \$398 million (Rs 299 crores) in outright grants, of which almost \$100 million (Rs 75 crores) was for technical assistance and close to \$300 million (Rs 255 crores) for project assistance. In addition, the United States had delivered \$4,566 million (Rs 3,425 crores) in foodgrains, cotton and other agricultural commodities, one-fourth of which has been in outright grants.

Massive Assistance

Total American aid amounts to \$8,000 million (Rs 6,000 crores). This is about three-fifths of the economic assistance that India has received from the entire world. This assistance has helped India to modernize its railroads, to increase its electric power capacity, to strengthen its educational system, practically to eliminate malaria, to develop its mineral resources and to stimulate industrial growth.

Twenty per cent of our assistance has been given on an outright grant basis with no repayments: forty-eight per cent is repayable not in dollars but in Indian rupees which can only be spent in India. The remaining 32 per cent is repayable in dollars, three-fourths of which are forty-year loans with interest rates ranging from 3/4 of one per cent to 2 1/2 per cent annually.

Why has the United States provided India with this massive assistance on non-commercial terms? What does the United States want in return?

It is sometimes alleged that American aid is given to India to secure India's support for American foreign policy. This irresponsible charge has been sharply, and in my opinion unfairly, critical of American policy in Vietnam. India has supported Chinese membership in the United Nations, which we have opposed. On many other international issues the Indian government has taken positions different from our own.

This article is based upon a talk given recently by Mr Chester Bowles, American Ambassador in India, to the Delhi Study Group.

If the United States has actually sought to "buy" Indian support for American policy, it is clear that the effort has been a dismal failure. Other sceptics charge that US aid is designed in some complex and nefarious way to win India's gratitude. There is no more basis for this charge than for the one which I have just cited. Indeed, sometimes it appears that India itself makes an effort to obscure the origin of American assistance.

For instance, the nearly 700 ships which in the past two years have delivered US grain into Indian ports are rarely said to carry "American wheat." When they are mentioned at all their cargoes are vaguely referred to as "imported wheat." Why then have the American people provided three-fifths of all foreign aid to India?

Economic Self-Sufficiency

For the past fifteen years American assistance of India has had a direct and clear purpose: it is designed to help India become an economically self-sufficient and politically viable nation.

Such an India will make its own massive contribution to world peace by demonstrating to the people of Asia, Africa and Latin America that democracy can achieve what totalitarianism, either Communist or Fascist, can never achieve: a society that is both prosperous and free. The objective of American aid to India is as simple and as straight-forward as that.

Several people have asked me: "Is it true that there are conditions on American assistance?" If this question refers to political strings the answer is an emphatic "no."

American aid in large quantities has gone to such Communist nations as Yugoslavia and Poland. As stated before, democratic India itself has opposed positions taken by the United States in the United Nations and elsewhere far more often than it has supported us. Although this has sometimes been cause for misunderstanding and disappointment, American aid has continued to flow. However, if the question refers to economic conditions, the answer is affirmative. These are the facts:

Since 1946 the United States has loaned or granted funds for economic development totalling some \$85 billion to nearly 100 nations. In some nations much of our assistance has been wasted for a variety of reasons—poor management, badly-designed projects, feudal systems of land ownership, political corruption and the like.

However, in nations which have been determined to put their houses in order, our economic aid has helped assure vastly increased production. It has provided workers, peasants and businessmen with a new sense of economic and social justice.

With this experience behind us we think it is reasonable to give the highest priority in aid to those nations which plan realistically, encourage widespread individual initiative, administer their development programmes firmly and wisely, tax their people equitably, and assure the maximum number of peasants the ownership of their land.

Now let us examine the so-called conditions under which American aid is given:

First, experience has shown that in every developing coun-

try agriculture deserves the highest priority. The reasons for this are obvious. In developing nations most people live on the land. Adequate, well-balanced food is essential to health, and agricultural output often amounts to half of the productive output of the country.

Second, we believe that education should be given a high priority. The ability to read and write is essential to the advancement of every citizen in a modern developing society. A primary key to the dynamic growth of Japan, Taiwan and South Korea lies in the fact that almost 100 per cent of their populations are literate.

Third, we believe a vigorous effort should be made to slow down the rate of population growth, and thereby provide each citizen with meaningful share of the increasing national income. A rapid population rise can absorb all the increased income, leaving the average citizen on dead centre.

Fourth, we think it is important for developing countries to make a vigorous drive to increase their exports to foreign nations. Only by so doing can they earn the foreign exchange

to pay for their imports and thus move toward self-sufficiency.

Fifth, we believe it is essential for a developing nation to release the energies of its people by establishing incentives for hard work and for responsible dynamic economic behaviour that contributes to the common good.

Experience shows that too many controls discourage expansion and stifle enterprise. It may be possible to develop increased production without economic justice, but it is impossible to achieve economic justice without increased production.

I believe these criteria are pragmatic and fair. I am also convinced that they are essential to the development of friendly and constructive understanding between both the aid-giving and the aid-receiving country.

If India succeeds in her bold venture in development, it will have proved that under vigorous, pragmatic leadership democracy is more than an idealistic vision. It is a realistic social, economic and political system that works dynamically for the benefit of all the people.

The Golden Mean

K. SANTHANAM

UNRESTRICTED "LAISSEZ faire" and total state control have both been proved unscientific and harmful. The doctrine of "laissez faire" received a mortal wound during the first world war but it lingered till the great depression when it was abandoned by all countries. Roosevelt's "New Deal" amounted to its renunciation by its last and greatest citadel. Totalitarian control began with the Russian revolution and steadily gained momentum through the depression, the rise of Nazism and fascism and finally the second world war. But in the two decades after the second world war, the remarkable recovery of West Germany and Japan and the greater progress of countries which sought to combine freedom of initiative and enterprise with state control and regulation at strategic points have induced even communist regimes to relax controls and grope for more flexible economic policies. Therefore, at the present time, economists and governments are seeking "the Golden Mean" between freedom and control.

Freedom Is Essential

It is admitted that freedom is essential at three critical points. The consumer has to be given reasonable freedom of choice. The worker has to be free to choose among occupations for which he is fit and, where technical qualifications are involved, he should be able to choose the particular training which he likes. Thirdly, the employment of capital has to be made by a proper consideration of priorities and there should be several types of autonomous agencies for production depending on the products and techniques.

It is obvious that the golden mean cannot be the same for all countries or for the same country for a long time. There has to be a continual readjustment to the needs of changing circumstances within the national economy and outside.

When in 1952 it was decided that our development should proceed on the basis of a mixed economy, it should have been followed by a search for this golden mean. But, an artificial demarcation of the public and private sectors both of which were to be directly controlled and regulated by bureaucratic agencies was considered to be a substitute for the difficult and complicated task of determining the frontiers of freedom and control. The result has been that the country has suffered the

evils of "laissez faire" and total state control without securing the benefits of either.

I am convinced that the new Planning Commission will not be able to make any headway unless it tackles this fundamental issue of finding the golden mean between freedom and control for the various sectors of our national economy. The same formulae will not be applicable to all the sectors. In this article I wish to confine myself to agriculture and foreign trade in which our failures have caused the greatest setback to our progress.

It is quite true that the importance of agriculture has been recognised from the very beginning but the roles of centralised planning and investment have been exaggerated and the parts played by the crucial human and natural factors have either been grossly under-rated or ignored. The determining factors of our agriculture are the millions of agriculturists with small holdings and their dependence on the monsoons. It was often assumed that some central and state agencies have only to make some decisions regarding fertilisers, seeds and improved methods of cultivation and they were bound to be adopted as a matter of course. Investment programmes did not make sufficient allowance for the vital part played by monsoons. Practically the same investment was made during favourable as well as unfavourable years according to a predetermined plan. Land reforms and ceilings were imposed without due regard to the different conditions in the various states and without any calculation of their effects on production. It is not surprising that the agricultural progress of this country has not been proportionate to the efforts made, capital invested, or expenditure incurred. It is true that some programmes, such as the development of irrigation, have been of permanent and undoubted benefit and if there has been a net average increase in production of about 30 million tons in food grains, it is entirely due to this part of investment.

Vague and over-optimistic pronouncements about breakthrough through new varieties of seed have only contributed to general disbelief in the official agencies. A new and realistic policy regarding agriculture will place in the fore-front the problem of educating through ocular demonstration and persuasive propaganda, the fifty million agricultural families about



LIC'S 6TH VALUATION

Bonuses declared for the two-year period ended March 31, 1967.

Bonuses declared on LIC with-profit policies in force as at March 31, 1967 are:

Rs. 20.00

per thousand per year on
Whole Life Assurances.

Rs. 16.00

per thousand per year on
Endowment Assurances

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the scope for increasing production and the methods to be employed for the purpose. This has to be supported by effective arrangements to compensate for losses incurred by the more enterprising farmers through floods, drought and other causes. A complete system of crop insurance is of course the proper solution but the idea has still to permeate the official mind and it may take a long time to evolve a satisfactory system. Meanwhile, "ad hoc" measures are required to prevent the discouragement that follows the failure of a crop. For instance in some parts of Tanjavoor district in Madras state, where the agriculturists have been persuaded to adopt the high yielding paddy ADT 27, there has been considerable damage due to floods and rains. It may be that many farmers have benefited by better harvests but unless ways and means are found for providing generous assistance to those who have suffered, the impetus given this year cannot be followed up satisfactorily next year.

There is again the problem of the satisfactory co-ordination of prices of fertilisers and crops. This is one of the few things in which those in power and authority can make effective contribution but they have not been able to do so.

Failure in Co-operative Movement

Lack of a clear policy regarding the co-operative movement has been another cause of the poor progress in agriculture. At one time, the role was so exaggerated that it was considered that the co-operative movement should have the exclusive responsibility of financing all agricultural operations. Under the scheme called 'Full Finance', the state governments were expected to stop progressively direct loans to agriculturists through their revenue departments or the community development organisation. Now there has been a sudden change and the commercial banks are blamed for not providing credit for agriculture. I have no doubt that except for providing some advance to wholesale dealers, the intrusion of commercial banks into the field of agricultural credit is likely to do more harm than good. The commercial banks will naturally patronise only the more prosperous agriculturists who will then desert the co-operative societies of which they form the sheet-anchor.

Parrot-like repetition of the need for land-reforms is another cause of instability as it turns the minds of agriculturists from intensive production to land speculation. The small holders try to divert all their savings towards buying up further small plots while those with comparatively large holdings feel insecure and try to transfer their savings to urban investments. A comparatively long period of stability of land tenure, conditions of tenancy and other legal relations is essential if the farming community is to obtain the benefits of promotional measures relating to irrigation, fertilisers, seeds, implements and improved cultural practices.

On the whole, I think the idea of central planning of agriculture should be given up except for research and production and pricing of fertilisers. Even state agricultural planning has to be in terms of compact areas with similar conditions of irrigation, rainfall and soil fertility. Decentralisation with advice and assistance from central and state authorities should prove to be the best means of promoting agriculture. It may also be pointed out that agricultural planning should be not in terms of five years but of 15 or 20 years. It is altogether meaningless and unnecessary to talk about national self-sufficiency or the stoppage of imports. The achievement of the one and the practicability of the other will be decided largely by events which cannot be predicted.

In our foreign trade, too much reliance on regulation and control exercised at the discretion of officials has led to a permanent distortion. If, from the beginning, the cost of our manufactures had been regulated by a wise policy of free import, subject to suitable rates of customs duties, the country would not have been placed in the present position. Even after heavy

devaluation, exporters are calling for more incentives as our costs are out of tune with international prices. Discretionary import controls have been one of the main sources of corruption and nepotism. Industrial licensing and price controls have also had similar effects. I am not pleading for an uncontrolled economy but the government should adopt techniques of management which enable a more natural co-ordination of costs and prices. Customs and excise duties and control of money, credit and foreign exchange, taxation and government purchases are powerful but impersonal methods of regulating the industrial sector so that our costs of production do not rise so high as to shut out external markets.

The indiscriminate use of foreign aid in setting up inefficient production units has also contributed to the growing disparities between national and international prices. Blind prejudices in favour of the public sector and, in the field left to the private sector, narrow economic nationalism, preferring inexperienced domestic capitalists to foreign enterprise with experience and large resources, have had the same result of exploiting the consumer and intensifying inflationary trends.

Thus, while control, regulation, assistance, advice, encouragement and restriction, operated through authorities and agencies competent to exercise them, may be indispensable, a persistent endeavour to reduce these measures and agencies to the minimum and ensure the efficient operation of those that remain is the inescapable condition for further planning to be successful.



"Will she nose de Gaulle out?"

FROM THE CAPITAL'S CUPBOARD

Cement Distribution Reorganised

THE TRANSFER of the distribution of cement from the Cement Allocation and Co-ordination Organisation (CACO) to the Cement Corporation of India (CCI) with effect from January 1 will not make any difference in the pattern of the utilization of the profits accruing to the cement industry on account of the premium price charged from the general consumer. The utilisation of the extra profits earned by the industry owing to the shortfall in the offtake of the government and the public sector enterprises, known as the rate contract consumers, however, may undergo a change in the near future.

When the price control on cement was lifted in 1966 and the industry was allowed to raise its sale prices, it was stipulated that 50 per cent of the total cement output will be made available by the industry to the government and the public sector projects at a price six rupees per tonne lower than the price charged from the general consumer. The increase in prices allowed in the case of sales to general consumers was Rs 16 per tonne. The rate contract consumers were asked to pay only Rs 10 per tonne extra. The average increase in prices, thus, came to Rs 13 per tonne. Of this, accruals at the rate of four rupees a tonne were to be credited by the manufacturers in separate accounts which were to be drawn upon only for expanding their cement manufacturing capacity. The price of cement was increased further by Rs 1.20 per tonne with effect from April 1, 1967. But this raise only offset the increase in freight.

Contributions to Political Parties

As a result of the postponement of the implementation of the fourth plan, the rate contract consumers could lift in 1966 only 45 per cent of the cement production as against 50 per cent they were entitled to. The industry, therefore, was allowed to sell 55 per cent of the total output to general consumers. The extra profit arising out of the five per cent increase in the supply to the general consumers, estimated at Rs 40 lakhs, was also to be credited by the industry, under direction from the government, to the expansion reserve accounts. Instead of disbursing this to the individual manufacturers so that they could utilise this extra profit also for financing their expansion schemes, the CACO used it for "furthering the interests" of the industry through making contributions to political and other parties.

In 1967, the offtake of the rate contract consumers is understood to have gone down further—to about 35 per cent of the total output. So nearly 65 per cent of the production has been available for sale to the general consumers. Till now the government feels that the extra profits from the additional supply released for sale to the general consumers from the quota of the rate contract buyers should be utilised for the expansion of the existing units. But the total demand falling short of supply may necessitate exports. Further due to the regional imbalances between demand and supply—there is a surplus, for instance, in the southern region, while demand exceeds supply in the north and north-west India—the movement of cement from the surplus states to the deficit ones may be on a larger scale than has been the case hitherto. This may necessitate larger allocations for freight equalization. There is also a move, it is understood, to have a uniform price for the sale of cement to general consumers throughout the country instead of four different prices at present. A part of the extra profits from the sale of the cement released from the quota of the rate contract consumers, it is felt, may have to be diverted for subsidising exports and for freight equalisation purposes. The amount saved by the CACO on account of discontinuance of subsidy to the cement manufacturers who had to switch over to furnace oil when coal supply became stringent, it may be recalled, was not allowed by the government to be used for

the expansion of the industry. It was utilised for freight equalisation purposes.

The official circles, however, are reticent to say anything on whether a part of this extra profit will be used for the manufacturing activities of the CCI also. The CCI is to handle cement distribution on a no-profit-no-loss basis as the CACO has been doing. But the possibility of the extra earnings from the sale of cement to the general consumer out of the quota of the rate contract consumers being utilised to some extent for financing the other activities of the CCI, particularly the exploration of limestone and other raw material deposits, cannot be completely ruled out. The distribution expenses of the CCI, it is learnt, will not be allowed to exceed the limit of 25 paise per tonne as had been stipulated in the case of CACO.

Notwithstanding the surplus supply of cement at present, the CCI, it is further learnt, is not slowing down its manufacturing programme. The government is anxious to obviate the unhappy experience of the mid-1950s.

Through a press release issued on Sunday last, the union government has advised all its departments, direct demanding officers and other parties competent to place supply orders against the DGS&D rate contract to submit henceforward their indents for obtaining release orders for cement, direct to the Controller of Cement, Cement Corporation of India, New Delhi-1. Stockists have been advised to place their indents with the regional co-ordinating officers as before. For the period to March 31, 1968, the CACO has been authorised to issue releases up to December 31, 1967, against all break-ups received from sponsoring authorities, state governments and other indentors.

In order to ensure continuity of supplies of cement, producers and selling agents have been advised to continue supplies against all orders on hand against the CACO release orders issued up to December 31, 1967. They have also been advised to book orders and to make despatches against all release orders pending on that date. The producers have also been advised to continue supplies to all stockists and wagon-load parties in the respective marketing zones of factories as existing on December 31, 1967, against bulk allotments to be notified separately.

In short, with a view to avoiding any possible dislocation in supplies and consequent hardship to users, the present pat-

Eastern Economist 20 Years Ago

JANUARY 2, 1948

To describe the year 1947 as the annus mirabilis—the year of wonders—will be to employ an over-worked phrase, which hardly does adequate justice to revolution in many continents. Consider the major events of the year. It more or less opened with the White Paper on Burma. On the 20th of February, there was the announcement of Britain's intention to come out of her commitments in India by June 1948. The Lingadjatti agreement followed on the 25th of March 1947. The agreement meant, as circumstances then were, political freedom for some sixty million Asians. On the 3rd of June, India was partitioned; and the Indian Independence Act came into force on the 15th August. This was followed by the publication on the 27th of October of the Burmese Independence Bill, together with the text of the Anglo-Burmese treaty. Less than a month later, on the 14th of November, the Ceylon Independence Bill was introduced in the House of Commons.

tern of distribution has been allowed to continue for the quarter commencing on January 1, 1968. The CCI will review the existing pattern keeping in view equitable distribution of cement throughout the country and changes will be made from the next quarter which commences on April 1, 1968, or earlier, where necessary.

The Delhi office of the Cement Corporation will discharge the functions that are now being performed by the central office which is operating in Bombay under the Cement Allocation and Co-ordination Organisation. The Cement Corporation will also take over all functions of the regional co-ordinating officers of CACO.

NAPHTHA SUPPLIES

The latest assessment of the supply of petroleum products from our refineries, made by the Indian Institute of Petroleum in collaboration with the union Ministry of Petroleum, confirms that if the presently envisaged petrochemicals and fertilizers manufacturing programmes are implemented as scheduled and the current pattern of production of our refineries is not changed, the current surplus of light distillates (motor spirit, naphtha and aviation gasoline) will not only disappear by 1971 but we will have a deficit of nearly 100,000 tonnes of these products in that year. The refining capacity in 1971 is expected to be of the order of 22 million tonnes. If the production pattern of the refineries remains unchanged subsequently also, the deficit of light distillates in 1975 will be as much as 1.96 million tonnes even though the refining capacity by then would have been expanded to 32 million tonnes. The demand for light distillates during the five years to 1975 is expected to be as follows:

Year	Total demand	(Million tonnes)	
		Demand for Naphtha for fertilizer manufacture	Demand for Naphtha for Petrochemicals
1971	3.93	1.66	0.644
1972	5.33	2.66	0.899
1973	6.27	3.25	1.14
1974	6.99	3.75	1.24
1975	7.49	3.9	1.47

The increase in the refining capacity from 22 million tonnes in 1971 to 32 million tonnes in 1975, however, is expected to throw up sizable surpluses of kerosene and furnace oil. With a view to reducing the deficit of light distillates and avoiding the surpluses of kerosene and furnace oil, some adjustments in the product pattern of the refineries are envisaged through raising of the flash point and hydro-cracking. But whether these adjustments will enable us to meet the requirements of light distillates fully from indigenous sources remains to be seen. Experts opine that the deficit will not be wiped out completely. The import of naphtha or ammonia may, thus, become necessary even though the fertilizer manufacturing capacity in 1975 is to be of the order of four million tonnes of nitrogen.

FERTILIZER PRICES CUT

The prices of imported fertilizers, it is learnt, have come down substantially in the recent past. The supplies of urea, which about three years ago were secured at an f.o.b. price of \$105/110, have been now contracted at a price nearly 30 per cent lower. The price of muriate of potash has been brought down by about 10 per cent. The reduction secured in the prices of phosphatic fertilizers ranges between 12 and 20 per cent.

Although the improved supply of fertilizers in the world market (thanks to the rapid expansion of production in many countries including Japan, the United States and the countries of western Europe) has increased competition, the credit for arranging imports at substantially reduced prices goes primarily to Mr K. Ram, Secretary of the Department of Supply. After assuming charge of his present office, Mr Ram replaced

the practice of purchasing fertilizers abroad on the basis of tenders by bilateral negotiations in the case of imports not financed by assistance from the US Agency for International Development (USAID). The purchase of fertilizers through USAID assistance has to be effected on the basis of tenders because of a specific stipulation in this regard. Though the prices of fertilizers imported on the latter account too have gone down, the decline has not been as steep as in the case of fertilizers imported through credits from elsewhere. If free foreign exchange is allowed to be used for importing fertilizers, the prices, it is understood, can be brought down further by at least two dollars per tonne, a decline of about two to three per cent.

With a view to saving on freight, which in the case of supplies from western Europe went up from about \$10 to nearly \$17/18 after the closure of the Suez Canal, efforts are being made to secure larger supplies from the countries of the eastern hemisphere, particularly Japan and Kuwait.

Already contracts for the supply of 267,000 tonnes of urea, 30,000 tonnes of ammonium sulphate, 50,000 tonnes of ammonium chloride and 16,000 tonnes of NPK during the six months to June have been finalised with Japan. Supplies of 170,000 tonnes of urea, 108,000 tonnes of calcium ammonium nitrate, 10,000 tonnes of ammonium sulphate nitrate, 62,000 tonnes of ammonium phosphate and 40,000 tonnes of muriate of potash have been arranged from west European countries. These imports will also be effected by June. Adding to these the domestic output, the imports to be made by the State Trading Corporation from the east European and those to be effected under the USAID programme, there remains only a small gap to be filled between the supply and the requirements for the six months to June, 1968. Negotiations are being carried on with Kuwait and the British manufacturers to fill this gap. They are expected to be completed shortly.

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WINDOW ON THE WORLD

West Germany's Technological Advance

JOSSLEYN HENNESSY

I
EMPLOYERS & WORKERS CO-OPERATE

THE IMPERATIVE need for technological progress is recognised throughout Europe, but while governments and economists—particularly in Belgium, France and the UK—exhort, West German entrepreneurs have been shooting ahead in the translation of words into deeds.

To assert that West Germany's progress in technological innovation has been outstanding over the past eight years is not a subjective impression but a verifiable statistical fact. And what is equally remarkable is that West Germany is the only country whose government regards the promotion of technological progress as none of its business. The achievement of West German industry to date is the result of entrepreneurial drive and trade union co-operation.

Since 1956, the labour force in West Germany as a percentage of the total population has fallen from 50.3 per cent to 45.7 in 1966. Working hours per week fell from 43 to 40 in 1967. Yet the index of the domestic product more than doubled, soaring from 197 in 1956 to 479 in 1966. In industry as a whole, output per man-hour rose between 1951-56 (when labour was in good supply) by 39 per cent and between 1958-66 (when labour supplies were contracting) by 72 per cent. Between 1960 and 1966 unemployment varied between 0.4 and 1.3 per cent, averaging 0.8 per cent. (In the first seven months of 1967, a year of recession, unemployment averaged 2.4 per cent, but is now at 1.8 per cent, back on a downward trend.)

West German economists say that these figures mean that since 1956 increased labour input has added little to economic growth, the greater part of which they ascribe to rising capital input, technological progress—including higher efficiency within shorter working hours due to rationalisation, automation, and computers—and the re-deployment on a massive scale of workers from less productive or traditional industries to more productive growth industries. Between 1958 and 1963, for example, the decrease in numbers employed, ascribed to technological changes, in 27 industries (including iron, steel, textiles, mining and woodworking) was 370,000. That this had no visible effect on the percentage of unemployed suggests that the 370,000 were successfully redeployed.

Faster Pace

The pace of capital-input and automation is now expected to become even faster because the working population (excluding foreign workers) will fall from its present 27 million to 26.18 million in 1971 and thereafter only rise slowly to 27.15 million by 1980. Nor can West Germany continue to rely on foreign workers, because the less developed European countries are all pressing ahead with their own industrial development. Italian employers are already busily enticing back Italians who acquired skills in West Germany.

Only Japan has bettered West Germany's output per man-hour figures. Although individual British industries, notably chemicals, engineering and electrical goods, have fine postwar records, the productivity figures for industry as a whole lag behind the UK's competitors. Why?

One answer is that social change is not only an inevitable consequence of technological progress: it is also an essential condition. This is seen clearly in the underdeveloped countries in which modern technology could swiftly raise the

living standards were it not that social factors seriously limit the extent of innovation possible. The problem exists at a different level in an old, industrial society, such as the UK's in which attitudes of many employers and workers are conditioned by the inheritance of the industrial revolution.

Faced with this inheritance, the British government, conscious of the need for profound structural changes, has been led to set up a battery of institutions, official and semi-official (e.g. the Ministry of Technology, the National Research Development Corporation, the Science Research Council, the British Productivity Council, the National Computer Centre, etc.) in an effort to prod, from above, employers and employees.

West Germany's problem has been easier in that the devastations of war and inflation largely destroyed the pre-war social and economic structure and compelled employers to face realities. It is, nevertheless, significant that West Germany's postwar leaders decided that reconstruction should not be imposed from above but that a situation should be created which would enlist the participation of all to strive for their own salvation. Successive West German governments have refrained from exhortations and interventions, holding that their role is to promote full (not over full) employment while simultaneously enforcing competition which, by making it difficult for employers and employees alike to earn easy money, it is held, will, of itself, induce both parties to embrace the technological changes required for prosperity. It is significant that while the term "automation" carries with it in the UK suggestions of a mystique, West German entrepreneurs, government officials and economists, accept it matter of factly, as no more than a particular instrument of continuous technological progress without which economic growth would be impossible.

II

TRADE UNIONS ACCEPT CHANGE

There is equal acceptance on the part of employees of technological innovation as part of the natural order.

Of the several factors which explain this attitude, the most important are, first, that despite the steadily intensifying application of rationalisation and labour-saving devices, unemployment has rarely risen above one per cent and that real wages rose by 27 per cent between 1957 and 1962 (1953=100), and by 20 per cent between 1962 and 1967 (1962=100). Secondly, co-operation between labour and management has been built into the structure of postwar West German industry. The law requires all firms to set up a Works Council which ensures co-management over conditions of labour: hiring, firing, health, welfare, working hours, etc. It is, in fact, even more difficult to dismiss a worker in West Germany than in the UK. The Works Council (whose numbers depend on the size of the firm, ranging upwards from one shop steward in firms with 20 workers or less), elected by secret ballot for two years, compels workers and management to maintain close touch.

Thirdly, and not least, is the important part played by the trades unions, organised not by crafts but in 16 major industrial unions. The centralised trade union structure enables the DGB (German TUC) to enforce a strict labour relations code.

No strike can be launched until all prescribed steps in negotiations have been taken. A union's local section cannot

strike without authorisation from headquarters. This obtained, the local must hold a secret ballot. A strike is illegal without a 75 majority—not of those voting but of total union membership—even then, work does not cease automatically, because the union is required also to consider the state of the trade cycle, and the possible repercussions on the economy. There are no closed shops in West German factories, nor does the DGB want them: "We believe that willing members make keener trade unionists than compulsory members", I was told at DGB headquarters.

Informed opinion in most industrialised countries is alive to the changes in the economic and social structure that technological progress in general, and automation and computers in particular, must cause. Broadly, the demand for unskilled labour is likely to decrease and there may emerge a rising shortage of higher skills, especially in monitors, technicians, programmers, and systems analysts. National educational systems—both in vocational and technical training and in the arts and sciences—will be revolutionised. Such ideas have, however, scarcely impinged on national public opinion at large.

Unions Educate Public Opinion

It is therefore noteworthy that the West German unions are taking the lead in seeking to educate public opinion in these problems, as well as pressing—with a fair degree of success—the relevant federal and state authorities (ministries of education, labour, social security, etc.) to initiate preparatory schemes well ahead of time.

The West German unions are well equipped for this crusade. Union dues are not flat rates but the equivalent of one hour of a worker's pay per week. The unions are therefore wealthy, pay good salaries and employ top ranking economists and advisers in their research departments, which turn out studies of impressive calibre. One of their aims is to ensure that the educational system should not lag behind the rate of technological change, and thus place the "burden of progress" on the backs of the workers. The IFO, one of West Germany's outstanding economic research institutes, comparable to the UK National Institute of Social and Economic Research, has under pressure from the DGB launched at a cost of over £500,000 investigations in depth into the social problems of technological progress and employment in selected industries.

The West German trade unions have repeatedly declared their complete support for technological change, and there is no record of any union action that has resisted either the introduction of labour-saving devices or the re-deployment of labour. At the same time, the unions insist that although "there can be no economic growth without technological progress", it is also possible that "technological progress can occur without leading to economic growth" if demand is allowed to become inadequate, but the differences between the unions, the government and employers should not be exaggerated. All three agree broadly on the social and educational measures necessary. It is difficult to convey on paper the psychological attitudes of the West German unions and their relationships with employers. A foreign trades unionist visiting West Germany finds the unions making all the same militant noises with which he is familiar at home. Likewise, a visiting foreign employer finds West German employers uttering dire prophecies that if the unions "go on the way they are", rising wage-costs will price West German goods out of world markets. The fact remains that these loud battle cries do not herald the constant stoppages and breakdowns encountered in some countries. An authoritative foreign observer in Germany explained to me: "There is social horror of a strike

here. The disasters of two defeats in war and two major inflations have spread an intense desire for social harmony."

III

WHY W. GERMAN EXPORTS SOAR

When West Germany squeezes credit to counter inflation her exports soar. When the UK squeezes credit, nothing special happens. Why?

Leaders in West German industry, bankers, economists and politicians in Bonn recently gave me virtually unanimous diagnoses.

I. The British tariffs are far too high. Employers can make profits at home too easily. Employees can extract pay rises unjustified by productivity because they can rely on employers being able to pass them on in higher prices which, in turn, provide excuses for further pay rises.

A very prominent ex-minister said to me: "If I were the UK Chancellor, I'd announce phased unilateral tariff cuts, giving industry sufficient time to streamline for tough competition. We inaugurated severe tariff cutting and generous import liberalisation from 1955. Foreign critics, who always stress our export surpluses, overlook that simultaneously our imports have risen in value from £2,230 million in 1955 to £4,300 million in 1960 to £6,500 million in 1966—an increase of 190 per cent. In the same years the UK imports rose from £3,860 million to £5,954 million—an increase of 54 per cent. Our industrialists have to fight for profits and they can't pass on wage rises."

II. The areas and populations of the UK and West Germany are nearly the same. Neither provides a home market big enough to support steadily expanding and really profitable large-scale enterprises. Both must export to maintain living standards. But until 1954 about 50 per cent of UK exports were channelled into the readymade English language markets of the sterling area, and even today over 30 per cent go there, whereas the biggest and fastest growing markets are outside it. Against this, the West Germans look on the whole world as their export market and assume that key executives must be fluent in foreign languages.

III. Taxes. "The difference between British and West German taxes", a British observer in Bonn ruefully told me, "is that British taxes are meant to punish people who make too much money, whereas West German taxes are meant to raise enough revenue to cover public expenditure."

Powerful Incentive

In West Germany, the maximum marginal income tax for a married man with two children is 53 per cent, reached when income is £29,000. Executive salaries are relatively constant, but bonuses rise, fall, or vanish, according to results. The tax rate means that an executive can earn a bonus giving him a big net rise without imposing unrealistic costs on the enterprise. With UK rates, this is impossible, because the marginal tax is 91 per cent on £18,900. So the tendency is to avoid heavy tax burdens by granting fringe benefits. These remain constant whatever the annual profits. It follows that, although the executive has a long term inducement to ensure that profits do not fall too noticeably, he lacks the West German executive's immediate incentive to multiply them as fast as he can. The West German executive has powerful inducements to take risks in hopes of big profits expansions. A British executive, in a firm which is trundling nicely along known paths, tends to avoid innovations which would add nothing to his income if successful and might mean losses if unsuccessful. The UK tax system also makes it difficult for a firm which is doing badly to attract an able executive to streamline it back to prosperity. If he is in a safe job, why

leave it to take on a salvage operation which may jeopardise his income and his reputation?

IV. Constant changes in UK company taxes, and in selective purchase taxes, multiply work and upset decisions based on previous market research. German sales taxes do not have the same disturbing effects because they fluctuate little and apply universally.

When the West German government seeks to cut expenditure, the big fluctuations fall on the subsidies, totalling some £3,700 million, covering, e.g., agriculture, coal, shipbuilding, pensions and the social services. This has a quick effect on consumption. It does not mean that present benefits in the social services are cut but that contributions towards future benefits may rise. The psychological factor here is the universal fear of inflation. The masses distrust policies which promise higher money incomes without adding to real purchasing power. West German fears of inflation usually provoke impatience or superior smiles in the UK but, considering that real national income has risen in the UK from £302 in 1953 to £489 per head (annual average 1.4 per cent) and in West Germany from £224 in 1955 to £486 per head (annual average 5.2 per cent), I don't really know what we have to feel superior about.

V. Wage contracts in West Germany cause a lag in pay rises and are consciously based on what is called "social symmetry", i.e., wage rises are expected to follow a previous rise in investments and profits.

VI. All this is relevant to two other questions: When a credit squeeze hits West Germany, how can enterprises switch fairly quickly to exports? When reflation comes, how do they manage to increase domestic sales without losing newly won export markets?

The answer is that they are working in an expanding

economy. In the short run of a credit squeeze, firms expect to raise efficiency by intensified rationalisation, so that rationalised capacity becomes big enough to cope with a combined increase in home and foreign demand.

The export manager of a firm with a turnover of £6 million (a) spoke to me in fluent English and (b) conducts his correspondence and produces his catalogues in English, French and Spanish. His salary, at the age of 30, is £1,700 a year, but he earns substantial bonuses. He sells machines used by builders and contractors. Exports vary from 25 to 40 per cent of output—35 per cent go to the EEC countries, 65 per cent all over the rest of the world. His export effort is essential to maintain domestic sales because it is important for his machines to be internationally known, since big West German contractors who work abroad want to use the same machines at home and abroad and expect to find overseas depots with spare parts. He expects 10 to 13 per cent profit on home sales but accepts one to three per cent on exports because this cuts unit costs and he makes up on the volume of sales. Contrary to widespread belief, the only rebate enjoyed by exports is the equivalent of the domestic excise tax to which imports are, of course, subject.

"We compete with West German, French, Swedish, Belgian, and British firms," he told me. "Our UK competitors are bigger than we are. Their machines are every bit as good and their prices are right—and could be even more so with your devaluation. But we are expanding faster, and expect to go on doing so despite your devaluation, because their deliveries are uncertain owing to labour troubles in their works and to irregularities on the railways and in the docks. Our own on-the-dot deliveries enable us to refuse to grant long credits and to insist on cash payments—a tremendous economy of our resources."

Out in the Cold

E. B. BROOK

VIENNA:

IT WOULD be pleasant as the new year begins to be able to write happily of European affairs, which, President de Gaulle notwithstanding, inevitably include the British. In fact, never before has continental Europe been so closely concerned with—not merely interested in—British affairs.

This fact does not necessarily increase the gloom or lighten the prospects of British affairs; it underlines the fact that commercial, industrial and financial affairs are now so tightly, inextricably woven internationally that they almost make nonsense of lesser international groupings. The danger is that, in the growing realization of how interlocked are international finance and business there may be some undeserved and damaging disenchantment with groups that, providing they do not become too tight and introvert, perform useful functions, including that of being testing grounds and preparations for wider associations.

The last few weeks have brought international confidence to an almost dangerously low ebb. The British devaluation—which the wise are now saying they had long since seen to be inevitable and which the undying optimist hails ruefully as a "useful piece of realism"—and de Gaulle's expressed intention to wreck the Common Market if it dares to admit Britain to membership have been deep depressants. How deep the depression is stands revealed by the mere fatuousness of some of the "rebound" reactions—eventually de Gaulle will have hurt France more than he has Britain, and "now that Britain has a clever Chancellor all will eventually be well."

All will not eventually be well—and everybody knows it—and the last thing Europe can afford nowadays, as Mr Wilson wisely realized in replying to de Gaulle, is an undignified, petty "you too" attitude.

It is developments since devaluation and since de Gaulle that have had the most depressing significance in Europe. It is firmly believed on the continent that the only possible course for Britain lies in starker living with rising prices and rents, still heavier taxes and a continuing, staggering effort to right one of the most important and, to a large extent, progressive economies in western Europe.

Another Devaluation Feared

Another sterling devaluation is already freely spoken of. It has been mentioned as probable within nine months by US economists; French officials, a little maliciously, are allowing three months. More friendly people of other nationalities doubt quite genuinely whether sterling can be held at its present rate for more than 12 months.

These attitudes are based on sincere doubts of the ability of sterling to hold its present level, doubts that are reinforced by near-official announcements in London of the probability of further cuts in public expenditure in order to release resources for the export markets.

By no means least in causes of continental gloom regarding Britain are the UK's continuing misfortunes—the immense losses in the foot-and-mouth epidemic among cattle and, above all, the continuing strikes, all of which adversely affect exports. The sharpening of the British temper is noted, not so much over de Gaulle as towards one another—the growing public hostility to strikers and to unions, the growing sourness over colour relations, the often sharp conflict of generations and the general surliness in increasing discomfort. The impressions are probably exaggerated but Europe at present sees with some dismay a decrease in the British will to overcome its misfortunes. For the prevalence of this view the British press is heavily responsible; from no country come newspapers with stronger suggestions of inner tensions.

More serious than this general view of British affairs in

Europe is the fact that the International Bank and the usually friendly OECD are decreasingly impressed by the case put forward by British Treasury representatives. The heaviest barrage of international criticism has been reserved for the British government itself and for the trade unions, their restrictive practices, their wage demands and the general attitude of British labour to its national crisis.

Europe and the UN's money organisations do not accept the British unions' pledge through the TUC to support the devaluation measures as a token of willingness to accept wage restraint; still less do they see any likelihood of co-operation between British business, the unions and the government. Unfavourable note has been taken also of the quick action of many British suppliers to take advantage of devaluation by raising prices.

The continent is also aware of the resentment in Britain at having to accept a large measure of international control of the national budget. The British are also being made conscious of the fact that continental bankers and big business are now in a position to make their distrust of the British socialist government felt. This does not imply an international plot to get Mr Wilson out of office; it does mean that the British government will be increasingly firmly pressed to eliminate its dividend controls and to ease the pressure of its more oppressive taxes.

Frightened Men

Everybody has suddenly become very conservative. The US Congress appears unlikely to give President Johnson the tax rise he is seeking this year but goes ahead with its protective bills which, if passed, may seriously diminish the benefits of the Kennedy Round. The French have demonstrated their basic conservatism by refusing the US aid against the dollar drain in recent weeks. The West Germans are set on stabilizing their economic affairs with a 3 to 4 per cent added value tax that, despite official denials, will have a similar effect to a minor devaluation. If another sterling devaluation comes about it could lead to something of an economic landslide in Europe.

The meeting in Brussels of the Common Market Ministerial Council in the middle of last month has only resulted in a deepening of the gloom. Although "the Friendly Five" held that there was no objection, in principle, to the enlargement of the Community, provided that the new members accept the Treaty of Rome and all later decisions by the Six, the French nevertheless stuck to their view that enlargement of the community would profoundly alter the EEC. The net result was that the Ministerial Council could not agree on further procedures for the present, but it decided to leave the applications of Britain, Norway, Denmark and Ireland as well as the Swedish letter seeking some form of association on the agenda. The Council was in general agreement that Britain's economic equilibrium was of considerable importance to the membership issue. All member states allowed that, since devaluation, Britain had taken considerable steps towards consolidating its economy, but the process of restoration required time. "The Friendly Five" considered that negotiations should start now and should be conducted concurrently with British efforts to strengthen the economy. France however differed and held that Britain's economic recovery should be secured first while negotiations could be started later.

If Britain can convince Europe and the rest that it is making good use of the increased competitiveness it has gained by the devaluation and gives promise of supporting it by holding down price and wage rises a better climate may develop by the spring. But the winter will be chilly and forbidding. Not even the ponds will be more frozen than progress towards economic unions of any type in Europe.

THE UNITED COMMERCIAL BANK LIMITED

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

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

DIRECTORS

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R. B. SHAH
GENERAL MANAGER

Trade Winds

INDUSTRIAL LICENSING POLICY RELAXED

THE GOVERNMENT of India has further relaxed the policy of industrial licensing for diversification of production. It would now be open to industrial units to diversify their production by the manufacture of new articles where import of additional raw material only is involved and the diversified product is a 'priority' industrial for raw material licensing. This will be permitted subject to the conditions that (i) no additional plant and machinery is installed, except minor balancing equipment produced indigenously; and (ii) the diversified production does not exceed 25 per cent of the total production. Prior permission of the government will be necessary for a large scale diversification. The government will give special priority to imports of balancing equipment required for diversification up to 25 per cent.

GENERAL INSURANCE

The Deputy Prime Minister proposed a number of measures to bring social control over the general insurance industry in a statement he made in the Lok Sabha on December 22. The existing Tariff Committee is to be reconstituted, with the Controller of Insurance as its chairman, to work out a fair premium rate for policy-holders. For greater security of policy-holders, a solvency margin is proposed to be fixed at 20 per cent of the net premium income of the insurer concerned or Rs 20 lakhs, whichever is higher. The present limit of statutory deposit of Rs 350,000 for an insurer registered for all the three classes of general insurance business will be increased to Rs 20 lakhs. Though public funds at the disposal of insurance companies are relatively small their investment needs to be regulated; for this purpose Section 27A of the Insurance Act will be suitably amended. The Controller of Insurance will be given enhanced powers of supervision and control over insurers, including surprise inspections, appointment or removal of principal officers, appointment of directors, and regulating of reinsurance contracts involving foreign exchange transactions. Finally, units which are weak or whose working is unsatisfactory will be amalgamated. To give effect to these measures a bill will be introduced in the next session of Parliament.

BANKING BILL

A bill to impose social control over commercial banks was introduced by the Deputy Prime Minister in the last session of Parliament. The bill provides for the reconstitution of boards of directors of banks with no less than 51 per cent of the total number of directors coming from such fields as agriculture, accountancy, co-operation, law, small industry, economics etc., and with full-time chairmen, who ought to be seasoned bankers. Chairmen should be appointed with the approval of the Reserve Bank and should not hold the post for more than five years. The bill proposes to prohibit grant of any loans, secured or unsecured, and to give or renew any guarantee to any of the directors of the bank or any company or firm in which they are substantially interested or to any company, firm or individual with which or with whom they are otherwise closely connected. The bill also provides for the government taking over any commercial bank which persistently fails to comply with RBI directions. The government may either run the acquired bank itself or hand it over to a corporation. The shareholders of the acquired bank will be compensated according to the schedule attached to the bill. The government resolution establishing the National Credit Council was also placed on the table of the House on December 22. The main functions of the council will be to assess the demand for bank credit, determine investment priorities, and to co-ordinate lending and investment policies as between commercial and co-operative banks. The 25-member council will be headed by the Finance Minister, with the Governor of the

Reserve Bank as vice-chairman. It will have three other permanent members, viz., the Deputy Chairman, Planning Commission, the Secretary, Ministry of Finance (Department of Economic Affairs), and the Chairman, Agricultural Refinance Corporation. The remaining 20 members, whose tenure will not exceed three years, will be drawn from commercial banks, co-operatives, large, medium and small-scale industries, agriculture, trade and professional groups.

L.I.C. GIVES BONUS

The Life Insurance Corporation has maintained for the year 1966-67 its bonus to policy-holders at Rs 20 per thousand per annum on whole life assurance and Rs 16 per thousand on endowment assurance. This was disclosed in Bombay on December 27 by its Chairman, Mr M. R. Ehide, when he announced the results of the sixth valuation of the Corporation as on March 31, 1967. The valuation revealed a distributable profit of Rs 72.28 crores. Of this amount, Rs 68.67 crores has been allocated to participating policy-holders and Rs 3.61 crores to the central government. The bonuses declared previously were for the first three valuations Rs 16 and Rs 12.80 on whole life and endowment assurance respectively, and in the fourth valuation Rs 17.50 and Rs 14 respectively. The fifth valuation was the same as the present one.

BANKING DECLARED A PUBLIC UTILITY

The Government of India has declared the banking industry carried on by a banking company to be a public utility service for purposes of the Industrial Disputes Act for a further period of six months from December 29, 1967.

AGRICULTURAL SITUATION

In a review issued last month by the union Ministry of Food and Agriculture, it has placed the estimated food production for the current year at 95 million tonnes—65 million tonnes of kharif and 30 million tonnes of rabi. In fact, an overall improvement in agricultural production is anticipated. According to the review, the groundnut production may set a new record, jute may reach the level of 6.4 million bales, and cotton and tobacco may have higher outputs than in the last year. Preliminary estimates indicate that the high-yielding varieties programme is proceeding satisfactorily. Although the kharif coverage under this programme is about six million acres, 1.85 million acres below the target, it is expected to be made up when the year's target of 15 million acres is reached by covering nine million acres under Mexican wheat and other high-yielding varieties of millets and paddy in the rabi season and in the summer programmes. The target of area to be benefited by minor irrigation schemes in the current year is three to 3.5 million acres. Yields from high-yielding varieties, which have been quite satisfactory in the past, are expected to be good. Also, the whole of the foreign exchange allocation of \$281 million for fertilizer imports has been utilised. Meanwhile, in the current year, it is proposed to increase the supply of institutional credit for agriculture by about Rs 100 crores to take the total to Rs 650 crores.

INDO-SOVIET TRADE AGREEMENT

An agreement for 1968, envisaging to increase the trade between India and the USSR to Rs 300 crores, was signed between the two countries in New Delhi last month. The volume of the Indo-Soviet trade during the past decade has grown from Rs 0.8 crore in 1953 and Rs 88 crores in 1958 to Rs 198 crores in 1966. It is expected to be around Rs 280 crores in 1967. The agreement provides for the import of capital goods, components and spare parts for maintaining the production programme of the various projects set up in India with Soviet assistance. Among the raw materials which India

will import include sulphur, zinc and tin-plates, chemicals (for the manufacture of medicinal products, dyestuffs and laboratory chemicals), raw asbestos, wood pulp and newsprint. It will also get from the Soviet Union such fertilizers as ammonium sulphate, muriate of potash and urea; and oil products, including kerosene. In return, India will export mostly traditional commodities, including tea, coffee, spices, mica and oil-cakes. Accent, however, will be on non-traditional items, such as shoes, textiles, ready-made garments, bed linen, handkerchiefs, woollen knitwear, spectacle frames, enamel for wire, rolled steel products, accumulators, and automobile tyres and tubes. The Soviet Union is also expected to lift more of the steel produced at Bhilai.

PACT TO BOOST EXPORTS TO W. GERMANY

A protocol, supplementary to the technical co-operation agreement of March 1966, was signed in New Delhi last month between West Germany and India. It provides for West German assistance to step up exports of Indian engineering goods to that country. Under the agreement, a team of five German experts, assisted by an equal number of Indians, will visit about 100 selected engineering units in our country and prepare case studies of their products in order to match the requirements of such products in West Germany. The agreements further envisages the provision by the West German government of nine sales and purchase experts for short periods; they will assess the saleability of Indian engineering products in Germany and look after the training in that country of 36 marketing executives from selected Indian industrial units for short periods. The two-year agreement is estimated to cost Rs 40 lakhs and the cost will be shared between the two countries.

NEW BRITISH LOAN

With the new general-purpose loan of £12 million (Rs 21.6 crores), the total of British loans to India for 1967-68 comes to £31 million. A further £1 million has been pledged, making £32 million in all for the current year. All these loans are for 25 years, have a seven-year grace period and are interest-free. With the present loan, aid agreements to the value of £328.5 million have been signed between Britain and India. It is estimated that of this amount £294 million or about 90 per cent will have been disbursed by the end of the present financial year.

CANADIAN LOAN WRITTEN OFF

Canada has written off payments (in foreign exchange) amounting to about \$10 million due from India on wheat loans. These loans were originally made through agreements signed in February and October, 1958. Payments on them were postponed earlier in March, 1966.

I.M.F. CREDIT TO INDIA

The International Monetary Fund has approved a drawing of an equivalent of \$90 million by India to meet payments difficulties caused by a temporary shortfall in export earnings during the year ended August 31, 1967. India's total quota in the Fund is \$750 million. Outstanding drawings currently total \$417.5 million.

INDO-U.A.R.-YUGOSLAV PACT

India, the UAR and Yugoslavia have agreed on a 50 per cent tariff reduction in exchanges among them of over 500 products of trade and export interest. The five-year agreement, signed in New Delhi last month, will come into effect from April 1, 1968. The cuts will be brought into effect in two stages: a 40 per cent cut in the most-favoured-nation rate of customs duties for the first 12 months and another 10 per cent thereafter. A common list of goods which will be eligible for the concession has been drawn up under 77 tariff headings, and the goods covered include processed and semi-processed food, chemicals and pharmaceuticals and iron and steel pro-

ducts. According to the rules of origin of the products adopted, an export product originating from any of the three countries must have 50 per cent domestic content. The agreement is open for 'accession' by any developing country who is a member of the Group of "77" on the basis of mutual benefit.

U.S. AID BILL LOWEST EVER

The US Congress passed last month a drastically slashed foreign aid bill. The amount of \$2,295 million is the lowest in the 20-year history of US foreign aid and will force reductions in economic assistance to many of the 74 recipients in Asia, Africa and Latin America. The approved bill, which is one-third of President Johnson's original request, asks him to withhold economic aid from developing countries that buy sophisticated weapons like jet aircraft and missiles, in case such purchases are not in line with US security interests. The drastic aid cut will mean a substantial reduction of US assistance to India in 1967-68. Last year it received \$382 million of non-project aid from America.

IMPORT OF U.S. FOODGRAINS

Under an agreement signed in New Delhi on December 30, India will buy from the USA 3.5 million tons of PL 480 foodgrains—three million tons of wheat and 500,000 tons of milo—valued at Rs 158.03 crores. The loan, repayable over 40 years, will have a 10-year grace period during which no repayment of principal will be required and interest will be two per cent per annum. The new agreement brings the total of US foodgrains supplied to India since 1951 to over 55.5 million tons.

BELGIAN AID

Under an agreement signed in Brussels last month, Belgium has given to India a loan of 125 million francs (\$20.5 million). It carries a three per cent interest and is repayable in 15 yearly instalments after a five-year grace period. Belgium's second government loan to India within the framework of the Aid Consortium, it follows a 60-million franc loan granted for 1966-67.

U.S. LOAN FOR SEED PRODUCTION

The US government has extended a loan of Rs 28 lakhs to the Agricultural Association Limited—a joint venture of a group of Indian collaborators and the DeKalb Agricultural Association of America. The amount will be utilised to help increase production of seeds of improved high-yielding varieties of maize, sorghum (milo), millet and other crops in India.

FERTILIZER FROM W. GERMANY

West Germany has offered to India fertilizers valued at over Rs 5 lakhs for use in the Indo-German FAO project in Almora district of Uttar Pradesh.

FERTILIZER IMPORT FROM JAPAN

India will be importing from Japan 267,000 tonnes of urea, 30,000 tonnes of ammonium sulphate, 50,000 tonnes of ammonium chloride and 16,000 tonnes of NPK compound fertilizer. A deal to this effect has been concluded by the Indian fertilizer purchase delegation which was in Tokyo recently. The purchases have been made against the Japanese yen credit of \$27 million.

ROLLING STOCK TO S. KOREA

India has won a contract for \$10 million worth of railway rolling stock to be supplied to South Korea in global tenders. The importing country will finance the purchase out of the loan from the IDA. India has agreed to release the equivalent of \$5 million in rupees, which is part of its subscription to the IDA.

CENTRAL REVENUES

The central revenue during the first half of the current financial year amounted to Rs 999.01 crores against Rs 969.31

crores for the corresponding period of 1966-67. The revenue realised in September, 1967 was Rs 229.74 crores against Rs 219.11 crores in September, 1966. Following is the breakdown of the revenue (in lakhs of rupees) realised under various heads during the first six months of 1967-68 (corresponding figures for 1966-67 are given in brackets): Customs 25,090. Union excise (excluding cess on salt, rubber, coal and iron ore 53,708 (48,202), Corporation tax 10,437 (11,215), Income-tax 9,131 (8,810), Estate duty 184 (202), Wealth tax 208 (220), Expenditure tax nil (2), gift tax 34 (38), and opium 229 (152).

I.A.C. ANNUAL REPORT

The Indian Airlines Corporation, in 1966-67, carried 14.9 lakh passengers, earned foreign exchange of the value of Rs 430 lakhs and increased its average utilisation of aircraft from 1,650 hours to 1,759 hours per year. The utilisation of the Caravelle rose from 2,709 hours to 2,751 hours. This is revealed in its fourteenth annual report released recently. The revenue amounted to Rs 2,809.52 lakhs and the expenditure to Rs 3,233.02 lakhs, marking an increase of 16 and 35 per cent respectively over 1965-66. There was thus a loss of Rs 423.50 lakhs as compared with profits of Rs 32.33 lakhs during the previous year and Rs 133 lakhs in 1964-65.

PRICE SUPPORT FOR JUTE

The State Trading Corporation has so far purchased more than two lakh maunds of jute valued at over Rs 1 crore, at the derivative prices in different important secondary jute markets in Orissa, Tripura, West Bengal, Assam and Bihar through co-operative societies nominated by respective state governments. The purchases are being made in pursuance of the union government's decision to support the price of raw jute on the basis of Rs 40 per maund for bottom grade of Assam variety of white jute delivered at Calcutta.

JUTE FORWARD TRADING : BAN LIFTED

The ban on forward trading in jute goods has been removed and the government has decided to allow futures trading in jute goods from January 1 onwards. The ban has been lifted subject to the conditions that the minimum price limit will continue to be Rs 58.50 per 100 yards of hessian cloth of 40 x 16 oz. and Rs 153.00 for 100 B Twill sacking bags. The ban was imposed on August 3, 1967.

SEMINAR ON FISCAL POLICIES

The Federation of Indian Chambers of Commerce and Industry will be holding in New Delhi on January 12-13 a seminar on fiscal and monetary policies. It will constitute three working groups which will discuss (i) taxable capacity, tax level and use of tax resources; (ii) tax structure and its effect on savings and growth; and (iii) monetary policy and finance for development. The seminar will be inaugurated by the Reserve Bank Governor, Mr L. K. Jha.

COFFEE OUTPUT AND EXPORT QUOTA

The marketing committee of the Coffee Board has estimated the 1967-68 coffee crop at 71,500 tonnes against its preliminary estimate of 79,009 tonnes. The production of coffee during 1966-67 was the highest so far, the pool receipts up to the middle of November being 77,550 tonnes. Meanwhile, India's export quota for coffee for 1968-69, under the International Coffee Agreement, has been fixed at 25,380 tonnes, against the last year's quota of 21,288 tonnes (subsequently increased to 23,788 tonnes).

SAMPLE CENSUS 1966

India's population has increased by 11.07 per cent in the rural areas and 20.15 per cent in the urban areas, as compared

to 1961, according to a sample census conducted in 1966. According to this report, of the total number of 495 million people, 400 million lived in the rural area and 95 million in the urban areas. The estimated population (in millions) in different states in 1966 was as follows: Andhra 39.24; Assam 14.26; Bihar 52.30; Gujarat 23.11; M.P. 36.14; Madras 41.51; Orissa 19.44; U.P. 82.03; Maharashtra 42.77; West Bengal 40.43; Delhi 3.08; and Himachal Pradesh 1.46.

SUGARCANE CROP COMPETITION

Madhya Pradesh and Maharashtra have won the running silver shields for recording the highest cane yield of all the competition plots harvested in the northern and the southern regions respectively under the All-India Regional Sugarcane Crop Competition for 1965-66. For Eksali crop, the first prize winning plot in Madhya Pradesh (northern region) obtained a yield of 255.99 tonnes per hectare by growing Co. 678 variety; Maharashtra (southern region) obtained 383.38 tonnes with Co. 740. For short-duration crop, first prize went to Uttar Pradesh (northern region) for 189.07 tonnes of Co. 527; Maharashtra recorded 330.55 tonnes with Co. 740. For Ratoon crop, first prizes went to Uttar Pradesh for 147.22 tonnes of Co. 1148 and 360.09 tonnes of Co. 740. For Adsali, Maharashtra bagged the first prize for the southern region obtaining 362.51 tonnes of Co. 740 per hectare.

AIR-INDIA TO BUY JUMBO JETS

Air-India has finalised with a consortium of 13 American banks a loan of Rs 24 crores for financing the purchase of two Boeing Jumbo jets scheduled for delivery in early 1971. The cost of aircraft, including initial spares and equipment, is Rs 45 crores. The balance will be loaned by the Export-Import Bank of the United States.

VANASPATI PRICES REDUCED

Retail prices of vanaspati have been reduced by five paise per kilogram in the north and west zones from January 1; they remain unchanged in the other two. The maximum retail prices, in rupees and exclusive of local taxes, are as under:

	15.6 kg.	4.0 kg.	2.0 kg.	Loose per kg.
North Zone	68.54	18.25	9.55	4.15
South Zone	66.66	17.80	9.33	4.04
East Zone	68.09	18.14	9.50	4.13
West Zone	66.71	17.81	9.34	4.04

BAN ON RUBBER IMPORT

The Government of India has decided to ban the import of rubber for the time being in order that the prices of indigenous rubber may be stabilised and the benefits of the statutory ceiling price of Rs 415/416 per quintal for raw rubber accrue to the growers. The government also plans to purchase rubber from the growers at the ceiling price, in case the prices do not stabilise within a month.

TATA FERTILIZER PROJECT

The foreign exchange saving potential of the proposed Tata fertilizer project, it is learnt, is in no way linked with the setting up of a 1200 MW nuclear power unit. Tatas, in the report submitted to the government, have made it abundantly clear that their fertilizer project would make use of all available power and indigenous raw material resources as far as possible. The possibility of using nuclear power has been suggested by Tatas in the context of a large agro-industrial complex in the Okhamandal region of Gujarat of which the Tata fertilizer project would be an important unit.

Company Affairs

DELHI CLOTH MILLS

DR BHARAT RAM, Chairman, Delhi Cloth and General Mills Co. Ltd, stated at the annual general meeting held recently that the government should make some efforts to bring down the bank rate and the rates of earnings on preference shares and debentures in order to revive the capital market for equity investment. If the rate of preference shares remained as high as 9½ to 10 per cent, one could not expect investment in equity shares, he added. The problem of financing the new projects was, therefore, becoming more and more difficult. He was of the opinion that large funds required for financing the additional agricultural production might be raised through a judicious dose of deficit financing. He added, however, that he was not in favour of deficit financing in general.

Talking about the affairs of the company, Dr Bharat Ram indicated that after making allowance for the adjustment in the basis for computation of depreciation for the Kota units, the performance was better than last year. The textile industry, he added, was facing an acute shortage of cotton and other raw materials. The sugar industry in western UP was facing shortage of sugarcane largely because sugarcane was diverted to the producers of gur and khandsari. The effect of the recent partial decontrol on the distribution and price of sugar, he added, would have to be watched carefully. The new stable bleaching powder unit at Delhi had gone into operation and its pro-ing ducts had a satisfactory response in the market, he added. He also informed the shareholders that the construction of the new fertilizer plant at Kota was progressing for which equipment had started arriving. He expected the plant to be completed in record time.

CONSOLIDATED COFFEE

The Chairman, Mr M. A. Sreenivasan, devoted a good part of his annual address to the shareholders of Consolidated Coffee Ltd in dealing with the achievements and the progress made by the company during 1966-67. The year, according to the chairman, was notable for the company in many respects. It witnessed an abbreviation of its name and an expansion of its area and activities. The year was also one of consolidation and reorganisation and of harmonious employer-employee relations. Above all, an all-time record was set up during the year in Robusta crop. The curing capacity had been trebled and it is now curing about a fifth of the all-India crop. It is now handling exports of coffee and it hopes to expand the volume of exports during the current year. The acquisition of Messrs Volkart Brothers' Tellicherry division had enabled the company to maintain its profitability and it bears eloquent testimony to the confidence expressed by the directors at the time of take-over.

As the devaluation of the pound would pose a severe threat to exports of coffee, the chairman pleaded for the immediate removal of the export duty on coffee which was imposed at the time of the devaluation of the rupee.

KAMANI METALS

Kamani Metals and Alloys Ltd proposes to skip the equity dividend for the year ended June 30, 1967, so as to retain resources for its diversification programmes. But the company proposes to capitalise a part of its reserves and issue bonus shares to the shareholders. An announcement in this regard is expected to be announced shortly.

During the year under review the company has earned a lower profit of Rs 36.44 lakhs after providing for depreciation and managing agents' remuneration as compared with Rs 44.27

lakhs in 1965-66. Taking into account the amount brought forward, refund of wealth tax and making other adjustments, the total amount available for appropriation came to Rs 38.11 lakhs as against Rs 44.34 lakhs in the preceding year. The amount transferred to development rebate reserve was reduced from Rs 2.20 lakhs to Rs 13,000 while the allocation to general reserve was lower at Rs 37.97 lakhs as against Rs 42.12 lakhs in 1965-66. A surplus of Rs 1,652 has been carried forward as against Rs 2,209 brought in.

Though production was higher than the previous year by about 13 per cent, the receipts from sales were lower at Rs 359.57 lakhs as compared with Rs 364.41 lakhs in 1965-66. Exports declined by about 57 per cent as compared with the preceding year following the withdrawal of export promotion schemes. The company has taken in hand a number of diversification programmes. Good progress has been made by the company in spring brass and nickel silver required by the telecommunication industry. The steel strip project is in an advanced stage and the company hopes to secure the licence shortly. The company is participating in the Indian Non-ferrous Metals Manufacturers' Association's endeavour to set up a research unit for the non-ferrous metal industry.

INDIAN ALUMINIUM

The directors of Indian Aluminium Company Ltd state that the Rs 6.4-crore rights issue of ordinary shares, which was announced in September 1967 and which had since been formally approved by the company's shareholders as well as by the government, will be made to the shareholders of the company on record as on January 25, 1968. The issue will be made on a one-for-one basis at a premium of Rs 0.70 per share, Rs 3.50 per share being payable on application towards the par value and the balance at intervals of not less than three months after allotment. On allotment, the new shares will rank pari passu with the existing ordinary shares to the extent that the par value has been paid-up.

Alcan Aluminium Ltd of Canada, Indal's principal shareholder, has already indicated its willingness to take up its rights under the proposed issue by investing a further sum of Rs 4.2 crores (six million Canadian dollars) in Indal.

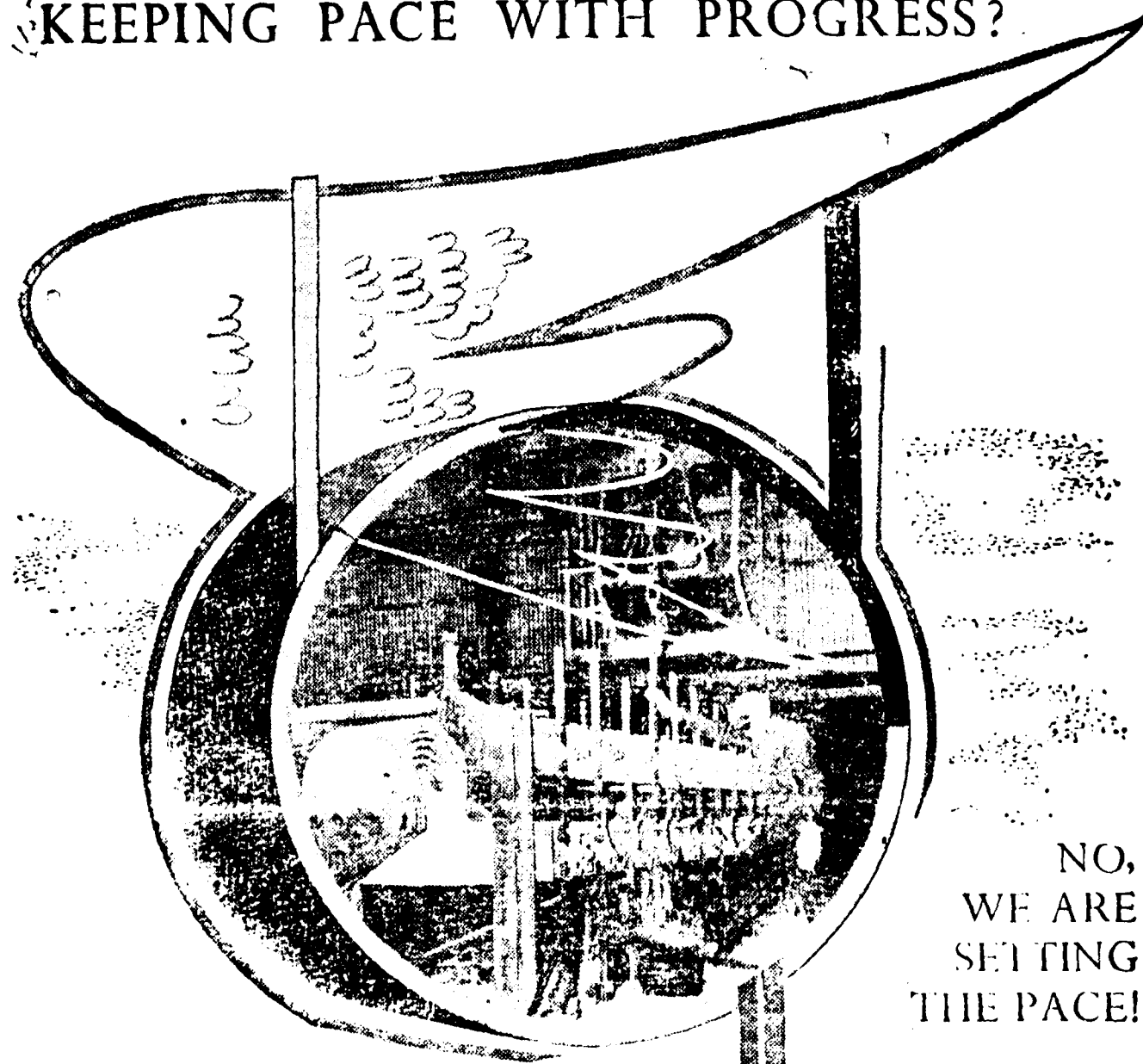
The proceeds of this issue are to be utilised in meeting a part of the finances required for the company's west coast project—an integrated bauxite, alumina and smelter development on the west coast of India, involving a total fresh capital investment of Rs 31.5 crores. The smelter-alumina plants to be built near Belgaum in Mysore will add a further 30,000 tonnes to the company's annual smelter capacity, which at present stands at 38,000 tonnes a year. The company is also taking steps to add further fabricating capacity near Bombay.

Construction work at Belgaum site has already commenced and is progressing according to schedule. The new smelter is expected to be commissioned at the end of 1969, Preliminary engineering work along with necessary arrangements for electric power, water and land required for the project has already been completed.

TATA'S SHARE DEPT

With a view to rendering quicker service to shareholders, the House of Tatas have now established a central share department for the principal companies under their management. The Tata Central Share Department started functioning from January 3, 1968. It is located at Fort, Bombay, very close to the Bombay Stock Exchange. The share departments of the

KEEPING PACE WITH PROGRESS?



NO,
WE ARE
SETTING
THE PACE!

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



HINDUSTAN ALUMINIUM CORPORATION LTD.

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

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COMPANY MEETING

PARRYS CONFECTIONERY LIMITED

The Thirteenth Annual General Meeting was held on 29th December 1967 in Madras. In his circulated statement, the Chairman, Mr H.V.R. Iengar, made the following points:—

The net profit for the year ended 30th September 1967, before taxation, is Rs 27.29 lakhs, surpassing the previous year's profit by Rs 10 lakhs. This was due to the increased turnover and reduction in loss on exports. After providing Rs 18.50 lakhs for tax, the net profit amounts to Rs 8.79 lakhs against Rs 5.72 lakhs in the previous year.

The total dividend distribution for this year is Rs 5.04,000—Rs 16,000 more than what was paid last year.

The profit for the year including the surplus brought forward from the previous year was Rs 8,80,247 out of which Rs 1,42,000 was transferred to Development Rebate Reserve and Rs 5,04,000 allocated against dividend for the year. This leaves a sum of Rs 2,30,000 which has been placed to the credit of General Reserve and the balance of Rs 4,247 is to be carried forward to next year.

The record sales during the year were achieved despite difficulties in obtaining adequate supplies of raw materials. Import licences for raw materials for confectionery—classified as a non-essential industry—were far from adequate and raw materials had to be bought at prohibitive prices from established importers. Even the prices of items manufactured in India recorded progressive increases. Sugar, particularly in the latter half of the year, posed a serious problem when not only was the monthly quota cut by Government but even release

orders for the reduced quotas were issued late with no compensatory allotment for the time lost.

In the circumstances, the prices of the finished product had to be reviewed at regular intervals with an eye at the same time on possible consumer resistance.

There is need for more machines to cope with the larger production and the possibilities of importing them are under constant examination.

The devaluation of the rupee, followed by the withdrawal of the cash incentive and reduced import entitlement, did not help the export of confectionery. Incentives since re-introduced are totally inadequate and have no relation to the spiralling costs of production. Our export efforts have had to be curtailed to the volume required to import badly needed spares and raw materials without which production would have to be drastically reduced.

With the confectionery industry now having to buy sugar in the open market at nearly three times the controlled price the price of better quality sweets will be nearer Rs 11 a kilogram against Rs 7.50 in 1966. However, it is hoped that there will not be any serious contraction of profits in the coming years and conditions will stabilise to help maintain production.

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

(The full text of the Speech has been sent to all Shareholders.)

NEPAL BANK LIMITED

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

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

Note:—One Nepalee Rupee is the equivalent of 13.15 D (U.K.), 13 C. (U.S.) and 98½ P (India)

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RECORDS AND STATISTICS

Assocham in Session

THE ASSOCIATED Chambers of Commerce & Industry of India held its annual general meeting on December 18, in Calcutta. The Deputy Prime Minister inaugurated the session. We reproduce here extracts from the proceedings.

Mr Pitts Prescribes for Recession

In the course of his speech welcoming Mr Morarji Desai, the President, Mr C. A. Pitts said:

"The year has also brought a recession to several important areas of Indian industry. I do not propose on this occasion to bore you with yet another analysis of the causes of recession which have been written and talked about to excess except to say that there was no single cause but a complex of causes of differing origin—agricultural failures because of the weather and their repercussions on purchasing power and the cost of living, over-ambitious planning and the ineffectiveness of devaluation, to mention but three. There is a general area of agreement among analysts as to the causes. What now needs to be done is to determine how to take advantage of nature's ample monsoon and the bountiful harvests it has brought to overcome recession and get the nation moving again on its forward march to greater prosperity.

In the short term we can expect that the good harvests will result in some increase in demand for consumer goods and especially textiles, and that easier food prices and availability will have a lowering effect on the cost of living, and on the balance of payments situation through a decrease in food imports. This should create a somewhat more confident climate but it would, I think, be wrong to expect too much from these short term easements. In the longer term a real recovery can only come through a resumption of investment and one of the most difficult problems confronting government must be when to start the process of reflation and how much capital to inject. You, Sir, have valiantly nailed your colours to the mast of no deficit finance and the wisdom and courage of this as an overriding national policy have rightly been applauded although it now seems certain that conditions in this financial year will not allow a balanced budget to be achieved despite the vigorous efforts which you have made. But I would suggest that in the conditions which prevail today, a beginning to new investment in projects which are vital to the economic growth of the country is essential if a real and lasting recovery from economic recession is to be put in train. And if some measure of deficit finance is necessary for this, then it should be accepted. There is a world of difference between large-scale uncontrolled deficit financing to meet the cost of non-productive activities—non-productive that is in the sense that they produce no goods and do not add to the real wealth of the country—there is a world of difference between this and the deliberate controlled injection of a calculated quantum of deficit finance for productive investment, particularly where it is of short gestation.

The economic situation facing the country calls for bold economic leadership and policies which are farsighted. The events of the past year must have resulted in a disappointingly small revenue collection and the resources position, both internal because of the recession and external because of the uncertainties of aid, and the large and increasing burden of debt repayments, must be causing you and your colleagues great concern. In such a situation to suggest that there might be some lowering of the rates of direct taxation on companies and on individuals might smack of irresponsibility. But I do suggest, Sir, that some easing of this burden would be a bold

and farsighted act of economic policy. In all your utterances you have always shown a keen awareness of the plight of the great majority of the people of India whose lot it has been to suffer great privation and to exist at subsistence levels. And to suggest to you that the burden of tax on companies and on comparatively well-to-do individuals might be lessened could be construed as the ultimate in selfishness and self-seeking. But the suggestion is made, Sir, not because of desire for relief for a privileged sector of society at the expense of a much larger unprivileged sector, but because it is our considered view that such a step would have a stimulating and expansionist effect on savings and investment out of all proportion to the immediate loss of revenue entailed. And the consequential increase in production and in incentives to the managerial class, in whatever sector they may be, on whose shoulders rests a great responsibility for the rate of increase and the size of the increase in national wealth, would bring in a far greater return to the exchequer than the revenue temporarily forfeited. This is not just theory. The effectiveness of such bold fiscal action has been clearly demonstrated in other countries of the world; in the United States for example and most clearly in Japan, and although it might be argued that conditions in these countries are not analogous to those in India, there are good grounds for urging that the experiment, if experiment it is, should at least be tried. And if it is not possible to reduce the rates of corporate taxation right across the board as it were, I suggest that, at the least reduced rates be applied more widely to give a positive push to the channelling of investment into all those industries which must have priority in the national plan.

Mobilising Resources

I have already referred to the increase in purchasing power in the hands of the farming population which is likely to result from the bountiful harvests resulting from the good monsoon. The zealous pursuit by government of its present agricultural policies which are the essential foundation for the growth of the Indian economy is likely to result in a steady and substantial increase in the amount of money available in the agricultural sector. Clearly government's policy of mobilising the maximum internal resources to support and facilitate general economic development must take heed of this increasing affluence in the agricultural sector and attempt to tap it both to augment national revenues and to involve this agricultural wealth in the development of the nation's plans. We are told that direct taxation of this agricultural income is not for the time being, at least, politically possible and if this assumption is accepted there would seem to be three courses open for the utilisation of this new wealth. Firstly, a major drive must be mounted to persuade agriculturalists to put money into national savings. Secondly, entrepreneurs in search of scarce and much needed capital will have to go out and meet the farmer and get him interested in what will be for him a new and strange field namely investment in stocks and shares. It will need imaginative promotion on the part of the entrepreneur and a considerable extension of effort on the part of banks through a network of rural branches, and on the part of stock brokers who will have to forsake the comfort of their city offices and go out into the villages in search of investors. Thirdly, government planners and private entrepreneurs will have to give immediate thought to widening the range and increasing the volume of these consumer goods which will be found attractive by the farmer and his family. Pride of possession of material goods and the prospect of a fuller life for himself and his family will be the most powerful incentive to the farmer to increase his efforts to produce bigger

Indian Railways' container services

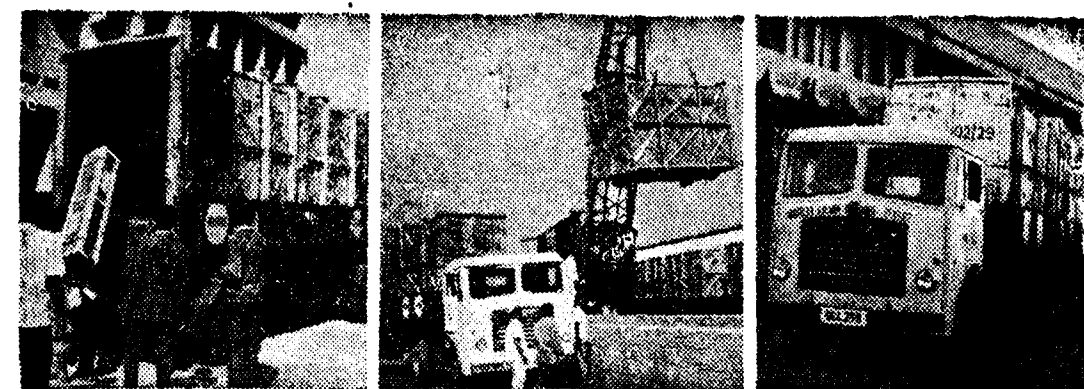
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Your goods are loaded in the container in your presence in your own godown and railway receipts made out on the spot.

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crops and higher yields. The production of consumer goods and the promotion and marketing of them to rural buyers are activities admirably suited to the skill and expertise of private enterprise and government should, I suggest, give the fullest freedom and encouragement to any such initiatives. By the levy of appropriate excises upon such goods government revenues will benefit substantially. And a reduction in the rates of corporate taxation to which I have already referred will facilitate the expansion and new investment required of the private sector in this area.

The special enquiries which you have caused to be made, Sir, into the tax structure have brought out the urgent need for simplification and streamlining of the whole apparatus and the need to create a new atmosphere between the tax collector and the tax payer so as to put an end to the present climate of suspicion and even hostility. Figures which have been published reveal the huge backlog which exists both in terms of numbers of assessments and amounts of money still to be collected. In the present state of the economy and the acute shortage of resources it would seem to be a national task of the greatest urgency to collect this backlog. It is our hope, Sir, that these special studies will be completed in time to bear fruit in your coming budget and that a simplified and rationalised system can be brought in which will make life easier for the honest taxpayer and vastly more difficult for the tax dodger and those who at present so successfully defer payments for long periods of time.

Reorganisation of Public Sector

Another source of revenue about which something urgently needs to be done is the returns from public sector investments. A recent study has revealed how little these investments have so far contributed to the public exchequer. They have of course had their own particular problems and their fair share of the burden of recession but the basic problems still to be solved are, I suggest, those of organisation and management. Large public sector corporations cannot be run successfully and profitably as extensions of government departments. These lessons have been painfully learned in other countries and the solution finally arrived at is to allow these projects to run in all respects as though they were independent commercial undertakings. Authority and responsibility need to be totally delegated and top management requires to be made up of men of skill and experience in running large industrial complexes. And workers in public sector enterprises need the same incentives, the same kind of motivation as their brothers in the private sector. They need the same kind of leadership, and they need the same kind of protection as is accorded to workers in the private sector by the labour legislation and by the tripartite conventions which govern the working of the private sector.

It was inevitable that the confusion consequent upon rupee devaluation, the uncertainties about foreign aid for projects together with the monsoon failures and their impact on agricultural production should have brought about a pause in planning. In one respect at least this pause has been beneficial for it has given a breathing space for a thorough analysis of the merits and demerits of planning as practised in previous years and an opportunity for a national debate on what form planning should take in the future. It has also enabled the imbalances that have emerged in industrial and agricultural development to be clearly delineated. There is a new team now at the Planning Commission and it has the good wishes of us all. Its role has been redefined. Whatever the opponents of national planning may say it must go on—there can be no escape from it. But if the planned use of all available and foreseeable resources is to have real success, it is essential that the plan must be compiled with ruthless realism and strictly within the limits of resources that can be foreseen; and the

lessons of the past surely teach us that the plan should be kept flexible that it should be reviewed regularly and that a much closer watch must be kept on implementation so as to correct lags and avoid imbalances; and in its compilation, all available knowledge and experience in the country should be drawn upon. I would particularly urge that the knowledge and experience of organised private sector industry and commerce should be used to the full in this matter. Apart from the obvious gain in realism, two other advantages will flow. The private sector will be involved in planning calculations and decisions and will thus participate in the responsibility for them; and the private sector's own plans will be fully taken into account in the finalisation of capacities, services and so on. The Associated Chambers of Commerce and Industry offer their full co-operation to the Planning Commission in any field of planning in which they can be of service.

And this question of involvement in national plans has a much wider significance. It has been the fashion in the past for many people to regard the national plan as something produced in an ivory tower by worthy government theorists remote from the heat and dust of every day. The man in the street, be it village or city, the workers in factories and indeed vast numbers of educated men and women in positions of responsibility have little or no knowledge of national plans and targets and, even if they have, are sceptical about their validity and feel no sense of personal involvement or personal obligation. Much of this stems from the gross inadequacy of media of communication and I would suggest that this is one of the greatest impediments to progress. National plans and policies must be put across convincingly to the people involved in their implementation. A nation grows great not through the efforts of a few but through the efforts of the great mass of the people. Here in India newspaper coverage is woefully inadequate; radio coverage is limited; the use of films for educational purposes in the rural areas is a slow and cumbersome business and television which could be a most effective medium for education and instruction, especially in the rural areas, does not exist at all. I would suggest that much greater resources and much greater priority be allocated to developing media of communication and especially television and that this would be a most profitable investment in terms of the rate of national development.

Support to Population Control

I will not, Sir, on this occasion dwell on the crucial problem of population control. No thinking person will deny that if this programme fails, all else will fail. Improvements in the media of communication would materially assist the programme. In the meantime it is, I suggest, the duty of every employer in this country to give unstinted support to this vital national campaign by providing for his own staff and workers the required promotional, educative and physical facilities. In this way a large section of organised labour can be covered and a considerable impact made. In the implementation of such a scheme, this Association offers its full support to governments of the states and the centre.

And as a corollary to the improvement in media of communication I suggest that far more publicity and truly national acclaim be given to those who make a significant contribution to national progress in the economic sphere. I would suggest a system of national awards both for individuals and for organisations, to be presented with the greatest possible publicity to those who achieve truly outstanding results in exports, and in import substitution and in productivity yields, both in the agricultural and industrial sectors. The criteria for such awards would need to be very strict; too many awards would debase their value. But such awards given, say, at the hands of the President and with nationwide publicity by press, radio and film would help to encourage this atmosphere of involvement and stimulate a sense of pride

of achievement in the struggle for a more prosperous India, and this could not fail to be beneficial.

One of the significant features of the past year has been the number of searching enquiries initiated by government into many aspects of the economy. Notable among them are the numerous studies of the Administrative Reforms Commission, the setting up of a national labour commission, the report on foreign collaboration and the special studies on taxation. Government is to be congratulated on the energy and initiative it has demonstrated in this field and organised industry and commerce are grateful to the bodies concerned for their willingness and indeed anxiety to enquire in great detail into the views of the private sector on the subject of the study and for giving opportunity for discussion. May I express the hope that fruits of all this work will soon become manifest in the shape of decision and action? We have also welcomed evidence of government's wish to remove controls wherever it is considered practicable, and await with great interest government's decisions on the current enquiry into industrial licensing policy. This Association has been a persistent critic of government policy on the grounds that the effect of it has been regulatory and restrictive rather than developmental and constructive, that it has failed to produce that amount of internal competition which we believe to be essential if the required standards of efficiency and the required stimulus to cost reduction are to be attained. Neither has it succeeded in producing the desired quantum of investment in priority areas. Obviously government must continue to control the use of its inadequate foreign exchange resources, but there is not a valid case for controlling industry which makes no demand on these foreign exchange resources, or even of industry which will guarantee to be self-sufficient in foreign exchange by undertaking to generate sufficient exchange by exports to cover its entire outgoings whether for raw materials, plant or dividend. The long years of restriction and restraint and the daunting experience of protracted discussions in great detail with the numerous departments of government concerned have had a stifling and depressant effect on the initiative of entrepreneurs, domestic and foreign, and I trust it will be possible for government to move quickly and effectively to remove these constraints. Such action would be most timely in the immediate future as industry struggles to recover from recession, taking advantage of the opportunity presented by good harvests.

Controversial Bills

The year 1967 has brought to the floor of the Lok Sabha legislation which is of much concern to commerce and industry. I refer to the Patents Bill and to the Monopolies and Restrictive Trade Practices Bill. The Patents Bill has been the subject of far-reaching debate over a considerable period of time and numerous representations have been made to government both from within India and from interested countries and organisations overseas. No one would dispute the right of government to ensure that its people are not denied the necessary benefits of research by reason of excessive greed on the part of patent owners whoever they may be and this fundamental aspect is well taken care of in the Bill. But the Bill goes far beyond this necessary provision and greatly reduces, and in some circumstances abolishes, the protection hitherto given to valuable knowledge resulting from research. There is a substantial weight of informed and responsible opinion which is convinced that the overall effect of the present Bill will be to deter and not to encourage research and to provoke secrecy over the results of research whether carried out in India or abroad, which cannot in the long run be to the advantage of India and will deter that widespread publication of technical information which is of such value not only to researchers but to academic organisations. If this is indeed to be the overall effect of the Bill, it is not easy to reconcile it with the frequently repeated

assertions of government which have the support of all that there must be a greater investment of men and money in research within India so as to increase self-dependence and reduce as quickly as possible the foreign exchange draught. It is to be hoped that India's legislators will have these considerations of the overall balance of advantage very much in mind when the Bill receives detailed consideration in the Lok Sabha.

The Monopolies Bill is yet another with which few people today will quarrel in terms of its essential principles, that is, the need to prevent exploitation of the people through the misuse of economic strength or through restrictive trade agreements. But it is, I suggest, questionable whether in its present form the Bill will do more harm or more good to the Indian economy. A rapid increase in national wealth is the prime and urgent need so that the new wealth created can be redistributed among the needy millions. Private enterprise wholeheartedly endorses any proposals which will promote competition and efficiency and initiative throughout the Indian economy, but certain provisions of the current Bill seem to be inconsistent with these laudable objectives. The percentage of available resources invested in the public sector is already great and will grow. But it is widely accepted that hitherto the greater part of this investment has been much less productive than it should have been. In such a context it seems anomalous and indeed inequitable that public sector undertakings should be excluded from the scope of the Bill. And the criteria of bigness and dominance suggested in the Bill seem badly out of focus. As of today even the biggest Indian undertakings are small-scale by international standards. And in a number of key areas of manufacture it is accepted that large-scale operation is essential if minimum costs are to be achieved. Viewed in perspective the dangers of a concentration of economic power could emanate if at all, only from one or two industrial groups in the entire country and powers already exist in the hands of government to deal with such a situation. It seems therefore of doubtful wisdom to cast a new restrictive net over practically the whole of organised industry by compelling it to seek new approvals for expansion and investment in order to guard against the limited danger to which I have referred. I would suggest that the legislation would be more apt if concentrated on restrictive trade practices and shelved for some years its proposals on the concentration of economic power.

No review of the current scene would be completed without some reference to the intractable balance of payments position. The export performance with the exception of tea and a limited number of other products, has been a disappointment not only to the government but to large numbers of industrialists and exporters who have worked hard and assiduously at promoting exports. There have been suggestions in recent days that government should enforce some compulsory linkage between imports and exports. The criticism is voiced that liberalisation of imports has not resulted in a significant increase in exports and that industry has not fulfilled its reciprocal obligation to expand exports in return for liberalised imports. But the truth of the matter is that the liberalised import policy has not yet had a fair chance to prove itself because of the abnormal conditions which have prevailed in the country since its introduction. Not only has there been a serious cutback in domestic demand which has caused an increase in the unit cost of production but labour conditions and particularly go-slow tactics and the high cost of living arising from the food situation have added substantially to these costs. Responsible industry—and most of it is responsible—accepts the obligations to export to the maximum. There may be some backsliders and some who are not pulling their weight. But the answer is not compulsory linkage. To cut back imports at a time when industry is struggling to escape from recession could have the opposite

effect to the one intended and to deny imports until exports have been achieved would tend to prolong or even to deepen the recession. A secure and lasting base for exports requires a strong and buoyant domestic market. Organised industry is ready and willing to sit down with government and agree on areas where greater exports can be achieved and is ready to work out with government acceptable and attainable targets and the practical means of achieving them. A joint effort of this sort would I suggest be far more effective than any scheme of compulsory linkage worked out and imposed by government. But the truth of the matter is that apart from the traditional exports, and some of these, and particularly jute, have their own intractable problems, expansion of exports will continue to be a slow, hard business. And the currency devaluations carried out recently by a number of countries will not make the task of the Indian exporters any easier. The root and major cause is the high cost of production. Other contributory causes such as the relative attraction of a protected domestic market, quality, packing, promotion and so on, are manageable and actionable. But 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 to which I have referred 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.

Drive For Exports

The fight for exports must go on and be intensified but in the short-term great benefits will accrue from an intensification of the drive for import substitution. And in this drive the public sector projects have at least as important a role to play as the private sector. Much can be done to speed up the implementation of projects already under way notably in the fields of fertilisers, organic chemicals and petrochemicals. And much can be done to diversify engineering capacity so that a much greater proportion of capital equipment for any project can be made within the country. The getting together of project sponsors and the Indian engineering industry has already produced immediate and valuable results. The process should be made more urgent and more comprehensive and government should give immediate help by way of foreign exchange if it will lead to important diversifications of engineering capacity.

But in all of these matters labour has a key role to play. One of the things which needs to be said about 1967 is the remarkable way in which the ordinary people have quietly endured the privations of scarce food, a progressively rising cost of living and increasing unemployment. It is surprising that, leaving aside West Bengal which is a special case, there has been so little unrest. In this state managements were exposed, for many months, to the phenomenon of the gherao which was all too often accompanied by violence and ill-treatment. For the time being at least the instrument seems to have been laid aside. Its continuance would surely have spelled the death-knell to any expansion of industry in West

Bengal, and perhaps an end even to established industry. It says much for the good sense of trade unionism in the rest of India, and for the labour administration in other states, that the pernicious poison of the gherao was not allowed, in any significant degree, to spread beyond the boundaries of West Bengal. But for all that, over the country as a whole, neither the leaders of management nor labour can be satisfied with progress thus far made. And here at least is one area in which, when we consider the essentials, no accusing finger can be pointed to government. For it is the task of government to prevent exploitation by either side and to act as a catalyst for the improvement of the atmosphere. It cannot by itself solve the basic problems which must in the end be settled between management and labour. There are unfortunately some bad employers but the great majority are, I believe, enlightened and benevolent in their attitude to labour.

Rivalry Between Unions

It is the duty of good employer to bring as much pressure as they can upon the bad ones because the abuses perpetrated by the few have a way of colouring the reputation of the majority, and of spoiling the climate for negotiation. But good managements would be much more effective if they would improve their communications. Their policies and attitudes and problems are often not properly communicated down the line to workers and conversely the grievances of workers, real or imaginary, are not communicated upwards so that prompt action can be taken. And not enough is done to try and train workers to become their own leaders. On the trade union side so much of its leadership is, alas! plainly political and the true interests of workers are not the paramount objective. The greatest bane of the industrial relations scene in India today is rivalry between unions of differing political affiliation within the same unit or company. For management, at least, Utopia will have been reached when there is only one union in each unit and that one union has no political affiliation but is led by workers for workers. But Utopia is for dreamers; as practical men of business we content ourselves with asking for government's help in eliminating this wasteful debilitating political rivalry between unions within the same unit which holds to ransom production and productivity and does no good to worker, management or country.

As to productivity, the simple fact that labour will be the greatest beneficiary of greater production and greater productivity is not put across by union leadership. No nation will become prosperous if its workers believe and are encouraged to believe, that a full day's pay is a fair reward for half a day's work. Low productivity and go-slow tactics are a widespread sickness of the Indian industrial scene today. But the solution does not lie with government; it will be found in better communication and training and less recourse to tripartite arrangements; it will be found in the development of workers from within industry who can become leaders of their own unions and rid themselves of professional political leaders."

Mr Desai on the Economic Outlook

Mr Desai, in the course of his reply, said: "The immediate outlook on the economic front appears to be good. We have had substantially better harvests this year and these by themselves would provide a right environment for bringing about economic recovery. The rate of growth of the economy this year, experts tell me, may be as high as 10 to 12 per cent. Even if it is not as high as this, it will be substantially better than what was achieved in any of the last five years. Greater production creates larger incomes and larger demand for goods and I hope private industry will respond by making every effort to satisfy these demands at reasonable prices. It should be government's endeavour as also that of industry and the people at large to ensure that a large part of the resources generated by greater production are diverted to savings and productive investment. Equally, efforts will have to be made to continue the momentum of growth by not allowing the

agricultural production programme to slacken and by promoting greater diversification of production in industry and also undertaking such new investments as are necessary to sustain these efforts. In all these tasks government will need the co-operation of the private sector; and I have no doubt that such co-operation will be forthcoming.

On the important question of food policy, a consensus has already emerged, namely, that we should not let go the opportunity provided by the good harvests to make substantial procurement in order to maintain supplies to the rationed areas and the fair price shops and also to build a substantial buffer stock. Decisions on these matters have been taken in consultation with the state governments.

As for resources for development, two years of drought and the recession of the past year have eroded government's revenues and have also created additional responsibilities such as for scarcity relief, etc. It is only as economic activity in general improves that the budgetary picture also can be expected to improve. I am glad that you have recognised the need for private industry to tap rural incomes by interesting the rural folk in investments in stocks and shares and by an extension of the activities of the banking system to the rural areas. Since bulk of the additional incomes will be generated in the rural sector, we have to look to that sector to provide the wherewithal for new investments. I fully endorse your suggestion, Mr President, that this is a task which cannot be performed through taxation alone or by governmental action. Private enterprise has a crucial role to play in this regard. To some extent rural resources can be tapped by taking industry to the rural areas; for nothing excites the imagination of the people more than a specific project located among themselves for which they would always be ready to come forward to provide support. Traditional attitudes to gold, jewellery and other unproductive forms of investments have also to change. But such a change can come only over time by maintaining conditions of stability and through an educative process in which associations like yours can play a useful role.

Export Promotion

Another crucial question to which we have to turn our attention is the promotion of exports. Our performance in this field has been far from satisfactory. I am aware that world market conditions have not been favourable for many of our major export commodities. I am aware also that the agricultural failures themselves have contributed to a considerable extent to the decline in our export capacity. But now that we are on the threshold of a recovery heralded by good harvests, our thoughts should turn to making the most of this opportunity for expanding our export earnings. It is, of course, the responsibility of the government to ensure that the obstacles in the way of exports are removed and to provide suitable assistance where needed. But governmental action, while necessary, can never be sufficient to bring about a dynamic growth in exports. This is shown by the experience of all countries which have achieved any significant export expansion. The main responsibility rests with private industry and the private exporter who have to cultivate assiduously foreign markets and not merely seek snugly profitable ways of doing business within the country. Our exporters need to be aggressive in foreign markets; they have to collect information, to seek new outlets, to constantly adapt products and designs to suit the tastes of the foreign customers and to be ready to diversify the range of their activities. Dynamic export growth can never be initiated, let alone sustained, on the basis of the same products being exported to the same destinations with constant or increasing government assistance. In recent months, there have been welcome signs of our engineering and other newer industries getting valuable export contracts, including some for capital equipment. In the present conditions of slack demand, a vigorous export effort is particularly welcome. But a continued intensification of the efforts to increase

and diversify the exports of our newer industries is an imperative necessity if we are to sustain a satisfactory rate of growth for any length of time.

I have spoken about food policy, resource mobilisation and exports as the major questions which confront us. I have not referred separately to the problem of activating the industrial economy, because it seems to me that a proper clue to this problem lies in a successful programme of food distribution, resource mobilisation and improved industrial efficiency which would be reflected in better export performance. Perhaps I should pause here briefly to comment on some aspects of resource mobilisation to which you made a reference. I refer first to the question of deficit financing. You said, Mr President, that if some measure of deficit financing for bringing about a real and lasting recovery from economic recession is necessary, such deficit financing should be accepted. I do not deny that there are circumstances in which deficit financing would not merely be safe but also necessary. But at a time when we are just about recovering from the inflationary pressures which have dominated the economic scene for the last few years, it would be prudent to err on the side of caution.

Structure of Taxation

In the context of resource mobilisation and the need to stimulate investment, the present structure of taxation has to be given a close look. I accept the point made by you that the scope for further simplification and rationalisation of tax structure must be examined and government will no doubt give due consideration to concrete suggestions in this regard. A simple tax system would certainly reduce the burden on the honest tax-payer; I do not know whether it will make it more difficult for the tax-evader to pursue his evil course in a different way! It is for associations, like yours, to evolve a code of conduct for your constituents and to enforce it through a variety of sanctions which are no doubt available to you. I earnestly hope that voluntary action will buttress government's efforts which have been intensified to check the evil of tax-evasion and also to secure expeditious collection of revenues.

Government has recognised the role which the private sector has to play in the development of the country. This is a recognition based as much on the need to preserve many and varied sources of action in a complex society as on the expectation that in the democratic framework within which we are all working, the private sector will also recognise that its role in development has a wider social purpose. The legislative action which the government has to take from time to time which may appear to restrict the freedom of action of private enterprise has also to be viewed in the larger perspective. Economic growth is desirable in itself. But if it brings with it evils of increasing inequalities of income and wealth and concentration of economic power, one should not quarrel with the legitimate actions which government takes to restrict these tendencies. In this, as in other matters, one has to evolve a suitable combination of policies which try to reduce the conflict between various objectives to the minimum possible. And this is what government always seeks to do. Similar considerations apply to the Patents Bill. If its effect is to retard research and development, I would be the first to modify. But it must also be accepted that the activity of research financed by private resources takes place in an environment in the creation of which the whole society has contributed; and it would be going against the social purpose which we have in view to confer a complete or everlasting monopoly of the results of research to any individual or organisation. It is not an accident that questions like the attitude to Patents are being raised not only here but in many countries including some of the most advanced capitalist countries. I hope private industry has enough faith that as long as its claims to serve social interests are such that they can be justified by reference to actual

experience, they are bound to be recognised in a society where public issues are ultimately decided by public discussion.

In conclusion, I would underscore the points which you made in your speech regarding the need to increase productivity both in the public and the private sectors, the need to secure the co-operation of labour in the task of development and, more generally, co-operation among different sections of the community in the formulation and execution of our plans of development. Government will, no doubt, give consideration to your suggestion that the private sector should be involved more and more into the processes of planning. Already, the machinery of consultation exists and this can be made to work more effectively. These consultations, in my view, would be far more beneficial than they have been in the past if they do not take the form of philosophical debates about the strategy of development, about the priorities to be assigned to one sector or another or about the general drift of government's policies. They would be more beneficial if they concentrated on specific tasks such as the evolution of new techniques or processes of manufacture, the exploration of ways and means of producing the same output with less costs, dissemination of information on matters such as modern management practices and so on.

We have specific tasks to accomplish over the next five or ten years; and these are more or less clear by now. Our advance on the agricultural front must continue unabated and all the industries which are oriented towards agriculture have to grow rapidly to feed the development of agriculture. We must, at the same time, give more attention than in the past to the industries which have an export potential—and I include in these the capital goods industries which have developed over the last few years and which can, with further effort, establish a competitive position in the world markets. With the development of petrochemical industries, a whole new field opens up for a variety of new products to be marketed in India and abroad; and, similarly, we have increasingly to turn our attention to electronics. These are the modern sectors which can change the very face of Indian industry and it is these sectors which require dynamic leadership both in the private and public enterprises."

Text of Resolutions

The Associated Chambers adopted unanimously the following resolutions:

Labour Relations

The deterioration in labour relations in some of the most highly industrialised parts of the country is seriously damaging national prosperity and economic growth; and, apart from material damage, the Associated Chambers deplore the coercion and interference with the fundamental liberties of the individual which have been features of labour agitation as displayed in the gherao movement. The Chambers urge that a determined effort be made to secure a greater respect for the rule of law by prevailing on labour to refrain from coercive and unconstitutional tactics and on employers, without exception, to fulfil the requirements of labour legislation and to honour their commitments towards labour.

Inter-union rivalry has been the most important single cause of failures in labour relations throughout industry, and it should therefore be a long-term objective of labour policy to reduce the present multiplicity of unions and, as far as possible, to adhere to the principle of one union for one unit. For that purpose it is necessary greatly to improve training and education facilities so as to equip workers to assume the responsibilities of leadership among their colleagues; and there is

an equal need for an improvement in managerial techniques of communication.

Serious economic damage has also resulted from the widespread practice of linking dearness allowance directly with the cost of living index, particularly when the index has been unrealistically constructed so as to treat former luxuries as being present necessities of life, and the outcome has been an upward spiral of wages which has increased production costs and added to inflationary pressure. This situation should be corrected by the adoption of a wages policy which will establish a closer relation between wage increases and increases in national wealth; and the best means of achieving this is to encourage the use of scientifically designed productivity schemes and to convince labour that increased productivity, far from reducing employment opportunities, will raise the level of national prosperity and thus create new employment.

The Chambers accordingly advocate the adoption of more positive and constructive labour policies to promote industrial discipline and the prompt, peaceful and equitable settlement of disputes, to achieve the optimum utilisation of manpower, to enable industry to make the fullest use of modern technologies and aids to high productivity, and to ensure a fair division of the rewards of increased output.

Agriculture

The Associated Chambers strongly support the Government of India's present strategy of concentrating the main weight of the nation's investible resources on agricultural development, and they trust that any short-term improvement in farm output as the result of a good monsoon will not induce a sense of complacency or lead to a slackening in the prolonged and vigorous effort that is necessary to achieve higher agricultural productivity. Agriculture presents a prime example of the need to make the optimum use of the nation's natural resources; and the Chambers would draw particular attention to the following aspects of the problem on which effort could at present be most usefully expended:

- (a) The droughts of 1965 and 1966 demonstrated that Indian agriculture is still very much at the mercy of the monsoon. There should therefore be an energetic campaign to promote efficient water conservation, not only through major projects but particularly through minor irrigation including the sinking of wells.
- (b) Agriculture should be industrialised in the sense of promoting modern techniques of management and modern aids to productivity.
- (c) Agro-industry—including both those units which provide agricultural input and those which process and market agricultural produce—should be given a high degree of priority in such matters as the supply of capital, credit and raw materials and in the grant of tax concessions.
- (d) The rural and farming community must have adequate incentives to produce more. Apart from worthwhile prices for agricultural produce, this involves the creation of a desire to achieve higher living standards through the ready availability of consumer goods, which in turn necessitates an improvement in rural communications—matters in which the state governments have a vital role to play.
- (e) Although agriculture must remain primarily the responsibility of state governments, there is a clear need for greater uniformity in state policies in order

to remove the obstacles which at present hamper the efficient distribution of agricultural inputs.

- (f) A considerable portion of India's food production at present goes waste. Effective measures should therefore be taken to reduce wastage at all stages—harvesting, drying, transport, storage, including in particular rodent and pest control.

Population

Since a reduction in the rate of population growth is fundamental to the achievement of India's social and economic objectives and since campaigns directed to this end must require many years to produce significant results, The Associated Chambers trust that temporary economic fluctuations and uncertainties will not be allowed to interfere with the family planning movement and that, though the campaign may be slow in making its effects evident, it will continue to be pursued vigorously and receive ample and large-scale financial allocations.

After getting off to a fairly good start, the family planning campaign seems now to be losing momentum and, because of the lack of effective follow-up action, there are signs of growing disillusion with family planning methods. This situation calls for a massive and imaginative propaganda campaign, using all available media of communication, and for the deployment of much larger numbers of trained staff, particularly in the rural areas.

Experience elsewhere in the world shows that higher living standards generally result in lower birth-rates; in the long term, therefore, an improvement in the living standards of the people, and particularly of the rural population, should provide a natural means of attaining population balance.

Where industrial labour is concerned, members of the Chambers will be glad to offer their fullest co-operation and to place their organisational resources at the disposal of the family planning authorities.

Direct Taxation

The Associated Chambers are convinced that the revival of the industrial economy requires a reduction in the excessive rates of taxation which at present stultify initiative and limit the scope for saving and investment. While recognising the revenue needs of the government if deficit financing is to be kept in check the Chambers think that reduction in the levels of direct taxation is justifiable and indeed essential, since by restoring incentives and encouraging economic expansion a higher aggregate revenue would be realised. They therefore advocate a thorough reorientation of fiscal policy aimed at a reduction of the direct tax burden.

Such tax relief, in the Chambers' opinion, should be accompanied by a far-reaching simplification of the tax structure and by an attempt on the part of the income tax authorities to apply easily comprehensible tax rules, thus eliminating unnecessary harassment of the bona fide tax payer and at the same time releasing effort to pursue the tax evaders.

Simultaneously, there is a great need to tap the increasing wealth of the agricultural sector in order to maximise the resources available for investment; and, while they recognise that direct taxation of the farmer may not yet be politically feasible and indeed might serve as a serious disincentive to increased agricultural production, the Chambers would urge that alternative means of mobilising rural wealth must be found, as for instance by an intensification of the national savings movement, by enlisting the interest of the farmer in equity investment and by the more ready availability of consumer goods.

The Chambers believe that the development of fiscal policy on these lines will promote rapid economic expansion and a growth in real wealth which, as it works out its effects and raises the nation's taxable capacity, will prove to be the most efficient means of increasing governmental revenues.

Excise

The Associated Chambers have consistently pressed for a continuance and extension of methods of indirect taxation as a major source of increased revenue. While again urging that this system of taxation be extended and broadened, the Chambers strongly recommend that excise duties, which form the greatest part of indirect taxes, be used by government as a more positive and flexible instrument of economic policy and that the following fundamental changes be made in the excise system:

- (1) a rationalisation of the existing system of collection of excise duties so as to reduce the inordinately large and costly machinery, eliminate unnecessary red tape, reduce the number of resident and supervisory staff engaged, simplify the rules and forms, eliminate procedural delays and reduce the cost of collection;
- (2) a reduction in the levels of excise duties in industries where they are excessive and act as a disincentive;
- (3) a widening of the net of excise duties to include many items of consumer goods;
- (4) evolution of suitable machinery whereby manufacturers may obtain a rebate of excise duties paid on constituent items of cost for goods exported, to enable exporting manufacturers to compete in world markets; and
- (5) an effective system of granting rebates of excise duty in return for increased production beyond specified levels.

Education

While commending the wisdom and tolerance, shown by those responsible for the passing of the official Language Amendment Bill and the adoption of the policy resolution on language, the Associated Chambers trust that in implementing this policy and in framing the policy on education due consideration will be given by the central and the state governments to the following:

1. In order to sustain the pace of industrial development the system of education must provide an adequate and growing supply of personnel qualified to hold technical, administrative and managerial positions. The use of English as the medium of instruction has ensured the mobility of such personnel within industry and commerce and facilitated the spread of modern management and production techniques. The proposed switch-over from English to the regional languages at the stage of university education is bound to disrupt this mobility.
2. Efficient management of commercial and industrial enterprises depends largely upon effective communication. English has served and continues to serve as the medium of communication for the business community, both within India and, increasingly, internationally. The elimination of English as a medium of communication will create problems for commerce and industry in respect of inter-regional correspondence and will entail additional expenditure and diminution of efficiency. Moreover, in the context of diversification of India's exports the need for continuing high proficiency in an international language is self-evident.
3. English has served up to now as the medium for the exchange of ideas and technological advancement and the Chambers are convinced that in the foreseeable future at least it would be impossible to replace English without impeding the pace of progress.

EASTERN ECONOMIST 2

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JANUARY 12, 1968

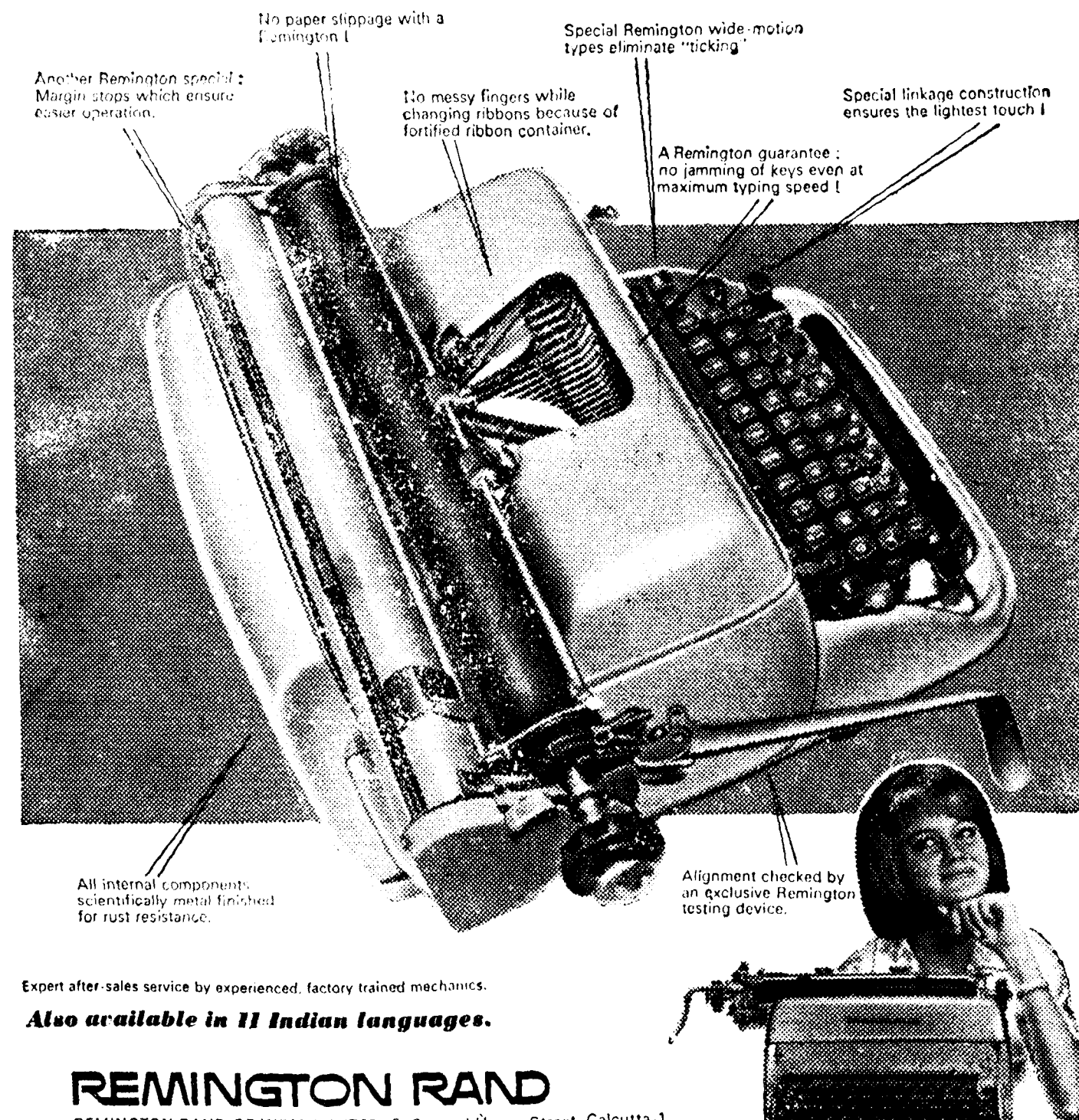
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On with the Dollar

THIS JOURNAL has always held the view that it is within the resources of the US economy and the US government to determine successfully when, where or in what manner the dollar is to be defended should its defence really become necessary in the world's exchanges. There has been a great deal of talk, even among those who ought to know better, about the vulnerability of the dollar. But those who have been indulging in this notion have tended to overlook the fact that when they speculate about the possibility of the dollar being devalued, they are not thinking in terms of other national currencies but only in terms of the US official price of gold. There is thus a certain artificiality about this talk of dollar devaluation, since what is being doubted is not really the relative worth of the dollar *vis-a-vis* other national currencies but the ability of the US government to meet its commitment to keep the price of gold firm at 35 US dollars for a fine ounce against all speculators in or hoarders of the yellow metal. It is true that the resources of the US government have been very considerably tested by the gold rush following the devaluation of the pound sterling, but it is obvious that the US government could, if necessary, opt out of its commitment to buy and sell gold at a fixed price in US dollars without necessarily affecting thereby the purchasing power of the dollar in world markets *vis-a-vis* other major national currencies. There is, however, no sign yet that policy-makers in the United States are thinking in this direction, but at least a significant step has been taken towards the rationalisation of the US gold policy by President Johnson's recent statement indicating that the legal requirement of a gold cover for the US currency is to be abolished.

This statement, of course, dealt with much more than the US government's gold policy. It was an announcement, primarily, of a series of measures for arresting the dollar drain which is causing some embarrassment to the US balance of payments. This five-point programme, designed to save \$3,000 million in 1968—as against an estimated deficit at between \$3,500 million and \$4,000 million in the US balance of payments in 1967—includes a complete ban on direct American investment in and loans by US banks to western Europe, the restriction of such investments and loans to two-thirds of the 1965-66 figure in the case of countries such as Britain, Canada, Australia, Japan and the "oil" countries of the Middle East, an appeal to Americans to defer for the next two years all non-essential travel outside the western hemisphere, a reduction of \$500 million in US government spending abroad, and measures to improve the US trade balance in 1968 by about \$500 million. The curb on direct American investment or bank lending abroad is expected to save \$1,000 million, while the discouragement of American tourist spending is expected to yield an economy of another like amount. Thus, by one bold move in US foreign economic policy, President Johnson has transferred a good deal of the balance of payments worries of the United States to other countries, notably Britain, France, West Germany, Italy and Japan, the economies of which have been drawing more heavily on US capital and US spending abroad than those concerned have cared to acknowledge.

The possible impact of the US measures on our economy needs to be analysed with a certain degree of sophistication. It may at once be said that the US government's plan for American tourist spending abroad is bound to affect us adversely not so much through a reduction in past earnings from this source—which in any case had not been large since our tourist trade is not yet well-developed—as by rendering the climate unfavourable for the tourist promotion measures on which our government has embarked after so much delay and deliberation. This apart,

it is the US government's decision to police investment of US capital abroad which will have the greatest significance for us. Here, in a helpful gesture towards the developing countries, the US President has not only excluded them from the operation of the investment curbs which he has directed against continental Europe and other developed countries, but has even left American corporations free to increase their investments in most developing countries by 10 per cent over the average amount they invested in such countries in 1965 and 1966. It has also been indicated that, in addition to the amounts of investment permitted under the general regulations, exceptions may be granted in special cases.

In our view, the US proposals on foreign investments are, on the whole, beneficial to our country in terms of its access to US capital. The important thing to note is that the central purpose of President Johnson's investment curb is to restrict spending by US corporations in continental Europe and other developed countries to which the bulk of US foreign capital outflow has so far been directed. By stopping or curtailing this movement, the US President is, in effect, helping to turn the thoughts of US corporations towards the long-term possibilities and attractions of promoting investment in developing countries. It should be the policy of our government and our businessmen to take all possible advantage of this situation. This would mean, above all, a sharp reduction in the bureaucratisation of the administration of the government's policies impinging on the inflow of foreign capital. Now is the time for a really positive, wholly aggressive programme for encouraging US capital to flow into employment-giving, wealth-producing industries in our country. Looked at in this manner, some of the attitudes which Mr G. L. Mehta, for instance, expressed at the Economists' Conference held in Madras early this month, seem to us to be rather unhelpful. We

firmly believe that much harm has been done to this country by our setting ourselves as judges of the detailed merits of this foreign investment proposition or that. This country needs not only the capital or the advanced technology of developed countries for the development and modernisation of its industrial economy; more than that it needs the managerial and other business know-how—the techniques of modern decision-making which are really at the heart of the outstanding success of US corporations not only on the American continent but also on other continents of the world. We believe that much obstruction has been caused to our country's industrial progress by the army of faceless bureaucrats of little skill and even less wisdom quartered in government offices in New Delhi or elsewhere and presuming to pronounce on each and every business proposition, especially in the foreign collaboration field. If only the government makes up its mind to end this disgraceful situation and frees itself of the itch to dictate about details of foreign collaborations, we are sure that in the new situation created for US investments abroad by the US government's proposals, this country's industry stands to gain very considerably from increased US investor and entrepreneurial interest and activity. It has been suggested that the conditions which the Government of the United States, as part of its new policy, has now imposed on American companies with regard to the repatriation of their foreign earnings may come in the way of any considerable net increase in investments by these corporations in our country. If there is any genuine difficulty here, we are sure that they will be "negotiable" in any dialogue New Delhi may seek with Washington on the subject—since it is clearly not the intention of American policy to discourage the flow of US private capital into developing countries, especially as this flow is quite meagre and causes no embarrassment to the US balance of payments.

Towards Equitable Distribution of Credit

OUTLINING THE provisions of the legislation on social control of banks, Mr Morarji Desai, Deputy Prime Minister, said in the course of his statement to Parliament on December 14: "The banking system is an important intermediary through which the savings of the community are channelled and is a key constituent of our economic life..... Its policies and practices must serve the basic social and economic objectives." If this is to be achieved, the government has now come to the conclusion after examining the various alternatives, including nationalisation, that certain measures are necessary "to ensure, in the immediate future, an equitable and purposeful distribution of credit, within the resources available, keeping in view the relative priorities of developmental needs." The emphasis thus is on distribution of the available credit facilities immediately so as to satisfy the needs of the priority sectors as determined by the authorities. The need to augment resources to match demand of the entire economy is not considered equally urgent. It is, however, somewhat comforting

that the Finance Minister at least considers it necessary to evolve long-term measures to stimulate a larger volume of savings and attract them to the banking system. When the basic aim of the legislation itself is thus narrow, it should not be difficult to visualise, in the not distant future, a situation in which several industrial units which have already come into being will be starved of their day-to-day working capital requirements, in spite of the concern so casually expressed—perhaps also deliberately—by Mr Morarji Desai in the course of his statement. There would be something to be said for the so-called social control of banks if it succeeds at least in offsetting the upsets that are bound to be caused by its new credit policy in the non-priority sectors with some notable gains in the priority sectors awaiting to be pampered.

At this stage, it is interesting to compare the reasons for social control urged in the Congress Working Committee and those that have been mentioned by Mr Desai.

Three main reasons were given by the so-called progressive Congressmen who advocated nationalisation, viz, (i) that banks have not given adequate credit to agriculture and small-scale industries, (ii) that they have given a large part of their advances to companies in which bank directors are interested, and (iii) that they have been financing speculative activities. But the government's considered opinion, to quote Mr Desai, is that "the link between a few industrial houses and banks has to be snapped, or at least made ineffective", that "the exclusive orientation of banks towards industry and business has to be changed", and that "the credit decision by the bank management must be made to conform to the priorities of our economic development." Evidently the documented and reasoned statement of the Indian Banks' Association and the lecture delivered in Bombay by a former governor of the Reserve Bank under the auspices of the A.D. Shroff Memorial Trust have prompted second thoughts and the consequent trimming of the guns against the present ownership and management of commercial banks in the main. It is amazing that, except for a passing reference to the entire banking policy so far being based on the safeguarding of the depositors' interest, no mention has been made that, as the banking legislation, including the Reserve Bank Act, stands today, the alleged shortcomings on the part of commercial banks were simply inevitable. In other words, banks gave more short and medium-term credit to industry and trade, regarding these fields as their main arena of operations, inasmuch as the needs of agriculture and small-scale industries were taken care of by co-operatives and state agencies, specially and specifically charged with the responsibility to cater to them. However, the main purpose of social control of banks, it has now been made clear, is "to ensure that particular clients or groups of clients are not favoured in the matter of distribution of credit, and whatever the character of the shareholding its influence is neutralised in the constitution of the board of directors and in its actual credit decision taken at different levels of bank management." This is the basic position of the social control scheme as conceived and formulated by the government. And practically all the provisions of the new bill are hinged to this one requirement. No attention seems to have been given to the serious consequences of the policy to starve big industry of its legitimate credit needs, in particular on the employment situation. How the affected interests will accept this challenge of social control would be interesting to watch.

If the Banking Laws (Miscellaneous Provisions Act) of 1963, which introduced, for the first time, the concept of "public interest" in the banking laws of this country, gave extensive powers to the Reserve Bank and the government of controlling and regulating the business and the management of banks, the main object of the new bill, it is clear, is to bring about a complete change in the management by appointing professional bankers as full-time chairmen and reconstituting the boards of directors of all commercial banks. Their lending policy also is to be thoroughly reoriented by so

widening the scope of the Reserve Bank's powers to issue directive as to embrace even such factors as monetary stability, equitable allocation and efficient use of resources and sound economic growth. In other words, the resources of the banking system are now required "to be distributed equitably and purposefully in conformity with the developmental requirements" by both ensuring their due share to the priority sectors and denying their share, let alone any favoured treatment, to particular clients or groups of clients. In making all this the specific responsibility of the Reserve Bank, ironically enough, the authorities have themselves conceded that they were not the responsibility of the Reserve Bank so far, and yet there has been no hesitation in bracketing the Reserve Bank with the State Bank of India and the commercial banks for not being sufficiently social-control conscious.

A notable feature of the new bill is the definitions of certain terms such as 'banking policy' and 'substantial interest'. The term 'banking policy' is probably expected to connote all that is implied in the phrase 'social control', such as the interest of the depositors or of banking or of economic growth. In the name of banking policy' thus, the Reserve Bank can issue any directive to banks, impose any penalty and even take over a bank! In the case of 'substantial interest', practically the same limitation as that which characterised the holdings of the Reserve Bank shares at first is sought to be made applicable. Thus, if the beneficial interest of any person, his spouse or minor child, whether single or taken together, in the shares of a company exceeds a paid-up value of Rs 5 lakhs or 5 per cent of the paid-up value of the share capital of the company, whichever is less, he will be deemed to have a 'substantial interest' in the company. The obvious idea is to see that no bank director has a *substantial* interest in any trade or industry of his own directly or indirectly. It is possibly to prevent any director from abusing his position to secure financial accommodation for the company or industry in which he is interested even remotely. A strict enforcement of this would eliminate some of our prominent industrialists and traders from the boards of some banks, whatever their contribution to the building up of these banks may have been.

There is nothing fundamentally wrong in insisting upon a full time chairman being a professional banker and not an industrialist, and one may even not mind the extension of the powers of the Reserve Bank, which has already a say in the appointment of any bank chairman, to include the power to appoint its own nominee as chairman if the bank's nominee as chairman is not acceptable to it, apart from the power to remove the bank's nominee even after appointment. But the complication that might arise from making the general manager the chairman with his functions as chief executive continuing in tact do not appear to have been fully taken note of. In the interest of the smooth working of any bank, not only as between the board of directors and the chairman but also as between the chairman-cum-general manager, and the executive next to

him, it would be necessary clearly to define their status, authority and mutual relationship. Although no difficulty appears to have arisen in elevating the general manager to the status of chairman of a bank so far, it cannot be altogether ruled out, especially where the existing relations between the chairman and the general manager of a bank have not been cordial. Similarly, difficulty may arise while reconstituting the board of directors of banks, as required by the bill, to ensure a majority of directors having special knowledge or practical experience in the priority sectors concerned. The difficulty would be all the more, as these special directors are to have no substantial interest in, or even active association as manager, managing agent or even an employee with any industrial or business undertaking other than a small industry. It is noteworthy that any such reconstitution or retirement of existing director is to be determined by the Reserve Bank under the provisions of the bill, which means the present board of directors, notwithstanding the confidence they enjoy of their shareholders, will have no say whatsoever in the matter. It remains to be seen how, in practice, this new requirement will be made to reconcile with the rights of the shareholders of a bank. Some shareholders may not be content to be taken for granted and be compelled to give their formal approval to whatever appointments or changes in the board of directors the Reserve Bank may care to make. Unless there are corresponding changes in the Company Law simultaneously, there may be shareholders who would even like to challenge the powers of the Reserve Bank to impose its choice, which virtually amounts to severing an accepted link between the shareholders of a bank and its management.

It is not only the shareholder that will cease to have any effective voice thus; the depositors and the borrowers too do not seem to be assured of a say. As a matter

of fact, the Deputy Prime Minister has clearly stated that it is the government's intention that borrowers of a bank should not be represented even on local or advisory committees! The new bill even anticipates possible persistent failure of banks in complying with the directives of the Reserve Bank and has provided for the government taking over the business of any bank on the recommendation of the Reserve Bank. But what is definitely pernicious is the allied provision for the government acquiring any bank in the interest of 'banking policy' which, as stated earlier, embraces almost everything under the sun. Does this mean that the government has not chosen to nationalise banks straightaway only because it has not the resources to do so? Such a wholesale takeover, according to the financial memorandum appended to the bill, would entail an outlay of about Rs 100 crores. In any case, the provision in question leaves no doubt as to the eventual intention of the authorities.

On the credit side of the bill, there is the provision to constitute the National Credit Council, although how it will function is anybody's guess with the reported differences between the Reserve Bank and the Finance Ministry. The Minister of Finance will be the chairman and the Governor of the Reserve Bank will be the vice-chairman; this will mean that even the facade of the Reserve Bank being an independent agency as the country's central bank will no longer be there. Hereafter, the credit policy will not be independently determined by the Reserve Bank; it will merely have to implement the recommendation of the National Credit Council as to the allocation of credit which will, of course, be in accordance with the priority requirements of the plans. It would be interesting to know if this is also the status of other central banks in other democratic countries.

Tightening Control Over General Insurance

NOTWITHSTANDING the vociferous opposition of the 'Young Turks' and the irrepressible All-India Insurance Employees' Association, Mr Morarji Desai, Deputy Prime Minister, rejected the demand for nationalisation of general insurance. Judging from the scheme he outlined to Parliament recently, it is obvious that not only is he convinced about the limited volume of resources that would become available for economic development if general insurance were nationalised, but also that the objectives sought to be achieved by the protagonists of nationalisation could as well be ensured by the changes envisaged by him. However, Mr Morarji Desai, it is necessary to bear in mind, has not categorically ruled out nationalisation, as, to quote his own words, "the government has already accepted the principle of nationalisation." In fact, he told an Ahmedabad audience, whilst inaugurating the new building of the Union Co-operative Insurance Society, that, if general insurance companies did not improve their working methods, their nationalisation might become unavoidable. Whether as a result of this threat, or as a result of the steps to regulate the general insu-

rance business adumbrated by him, there would be any substantial difference in the working of general insurance companies in this country remains to be seen, but we are convinced that nationalisation of an inherently service industry like general insurance, an essay from which even prosperous socialist countries such as Sweden and the UK have studiously shied away, is fraught with danger.

The move for nationalisation of general insurance dates back to even earlier than 1956, when life insurance was nationalised. The All-India Insurance Employees' Association has been urging the government to nationalise the insurance industry as a whole from a much earlier date. It intensified its campaign in 1956 but the then union Finance Minister, Sir Chintaman Deshmukh, did not oblige them by agreeing to nationalise general insurance. Undeterred by this decision, if not, unconvinced by the reasons given by Sir Chintaman Deshmukh, the association revived its campaign for nationalisation in 1962. It was in that year, by the way, that Mr Morarji Desai, who was then the union Finance Minister, stated in Parliament that the question

of nationalising general insurance business was under active consideration of the government and that if the private insurers continued to function in the fashion they were said to be doing, the government would not hesitate to nationalise general insurance. For some years thereafter, thanks to the Chinese aggression and its aftermath, the question did not crop up. However, in 1964, the Life Insurance Corporation (LIC) was allowed to enter the field "to introduce an element of healthy rivalry" as between the LIC and the privately-run general insurance companies. Of course, the All-India Insurance Employees' Association kept alive its campaign for the nationalisation of general insurance, and since May, 1967, when the Congress Working Committee accepted its now famous ten-point programme, it stepped up the tempo of the campaign. Meanwhile, the Government of India too examined the proposal for the nationalisation of general insurance in all its aspects as also the possibilities of achieving the desired objectives in other ways. Following this examination it is that the government has refused to be hustled into nationalising general insurance; it has decided, at the same time, to take certain measures to regulate the working of general insurance in the name of social control.

The measures embodied in the scheme outlined by Mr Morarji Desai are four, namely: (i) to ensure fair premium rates, (ii) to afford complete security to policyholders, (iii) to see that individuals do not own general insurance companies and utilise the company's funds to further their private interests, and (iv) to make sure that the industry functions on sound and healthy lines, free from malpractices. It is proposed to amend the Insurance Act, 1938, to achieve these objectives.

The desideratum of fair premium rates is unquestionable. Admittedly, there have been complaints that the premium rates, charged at present are somewhat on the high side but unless it can be established that the Tariff Committee, a statutory body constituted for the purpose of regulating premiums, has not functioned satisfactorily, it is difficult to see how one can regard the prevailing premium rates, especially in the context of high prices ruling all round, as being on the high side. Moreover, looking at the profits of general insurance companies as a whole—about Rs 3 to 4 crores after taxes—the charge that premium rates are unduly high cannot be sustained, unless, of course, it is proved that expenses of these companies have been top-heavy. The facile belief that premium rates must be high because of the alleged prevalence of unhealthy competition by way of under-the-counter rebates, amounts to straining one's imagination a little too far.

The only way in which premium rates can be brought down is by expanding the volume of business, on the one hand, and by effecting economies all round, on the other. This will be possible only when the weaker units are eliminated and the volume of business handled by individual companies is large enough. At the same time, general insurance companies must be enabled by fiscal concessions, for which they have been pleading in vain for years, to build up adequate reserves. Indeed, this is a must now, especially when the statu-

tory deposit (for carrying on all three lines of general insurance) is proposed to be raised from Rs 3.5 lakhs to Rs 20 lakhs and the solvency margin is sought to be enforced at 20 per cent of the net premium income of the insurer or Rs 20 lakhs, whichever is higher. Also, it is worth noting here that the proposal to extend the provisions of section 27-A of the Insurance Act to general insurance companies might result in a relatively lower yield from their investments.

It is not clear in what way there is absence of complete security to policy-holders even as things stand today. There have been hardly a few cases of a general insurance company not being able to honour its claims commitments once the claims are established. At the most, owing perhaps to lack of liquid assets at the time—even the so-called liquid assets are not quite that liquid these days!—there may have been delays. All the same, it cannot be denied that the proposed changes and the conferment of wide powers on the Controller of Insurance would provide some additional security, albeit only psychological. Security to policy-holders, it must be borne in mind, accrues not so much from the almost arbitrary powers proposed to be vested in the controller as from the judicious manner in which these powers are going to be exercised. The real gain to policy-holders consequent on the changes, however, stems from the proposal to raise the solvency margin and the statutory deposit.

The third objective is that insurance companies should not be owned by individuals and that the funds of these companies should not be utilised to further the private ends of the owners. This is sought to be ensured by limiting the channels of investment and placing limits on the maximum investment in shares of individual companies, as also by regulating the maximum holding (not exceeding 10 per cent) of the shares and voting rights (five per cent of the total) of shareholders. The big idea is to prevent (a) interlocking between general insurance and joint-stock companies and (b) diversion of general insurance funds to further the interests of the owners and their groups of business. This can only be compared to the use of an axe to ward off the nuisance of a fly sitting on one's nose, as the adage goes. Where are all the so-called abundant funds? It is common knowledge that funds with all the general insurance companies in the country, including the Rs 10 crores or so already invested by them in government securities, do not exceed about sixty crores of rupees, while their aggregate annual profits are less than five crores of rupees even with the present so-called high premium rates. Surely these are less than a drop in the ocean alongside the sizable resources required by the planners.

Everyone, not excluding those in charge of general insurance business today, desires that the industry should function along sound and healthy lines. This explains why general insurance interests themselves have welcomed some of the proposed changes as a major reform that would make the industry healthy. They may well turn out to be that, provided the approach for ushering in these changes is progressive and not punitive.

Banking in a Planned Economy

H.V.R. IENGAR

I FEEL deeply honoured by the invitation that has been extended to me by the trustees of the A. D. Shroff Memorial Trust for delivering the first of their proposed series of annual lectures. By a curious chance it was only less than six weeks ago that I delivered the A. D. Shroff Memorial Lecture under the auspices of the Forum of Free Enterprise. The scope of today's lecture is somewhat different because lectures under the Trust are to be confined to banking, insurance and industrial finance, subjects which were of special interest to A. D. Shroff and in which he made an outstanding mark. The subject allotted to me today is "The Role of the Central Banking Authority and Commercial Banks in a Planned Economy"—a subject on which I cannot disclaim all knowledge although I have been out of direct touch for more than five years. But perhaps this is just as well, for I hope I can speak now with somewhat greater detachment than was possible immediately after I retired from the governorship of the Reserve Bank of India.

I understand that the audience before whom I am speaking is a very mixed one—it consists of under-graduates who are still in the process of learning the elements of economics; of post-graduate students whose knowledge of theoretical economics is quite impressive; of some officials of the Reserve Bank of India who are doubtless here to see how much of the theory and practice of central banking they taught me some years ago has been forgotten by me; of commercial bankers who are at the moment reeling under a concerted attack by left-wing politicians that they have somehow or other failed in their duty and are wondering whether I will bring them support or add to their misery; and a variety of other people who are interested in the subject-matter of banking. The nature of the audience imposes some limits to my choice of material. I have come to the conclusion that it will not be appropriate for me to deal with the purely technical aspects of the subject, although these aspects are interesting in themselves and never lose their topical importance. It is tempting to go grazing again on pastures which were once familiar to me, such as the concept of money supply, the velocity of circulation, what my friends in the Reserve Bank call transactions velocity, the concept of bank money, the mechanics of inter-relationship between money supply, production and the price level, the applicability in Indian conditions of the theory of interest rates prevalent in western economies, and the like. I have decided to resist the temptation and propose to confine myself to certain general problems in the belief that these would be of interest to all sections of the audience who are here.

Emphasis on Stability

The preamble to the Reserve Bank of India Act, which was first enacted in the year 1934, says that the object of the setting up of the Bank is: "To regulate the issue of bank notes and the keeping of reserves with a view to securing monetary stability in India and generally to operate the currency and credit system of the country to its advantage." The main emphasis, you will notice, is on the maintenance of the stability of the rupee. This emphasis was entirely in accordance with the theories current before World War II about the proper functions of the central bank of a country. The principal preoccupation of central banks in all developed economies was to preserve monetary stability, both internally and externally. Ideas such as that there should be full employment and that there should be a continuous growth in national income, although discussed by economists, are in reality a post-war development in so far as their impact on the policy making of governments is concerned. Moreover, the subject of monetary stability was a matter of the liveliest

This is the text of a lecture delivered by Mr H. V. R. Iengar under the auspices of the A. D. Shroff Memorial Trust in Bombay on December 6, 1967.

interest to everybody because, in fact, there had been a great deal of monetary instability between World War I and World War II. There had been raging inflation in Germany and wide degrees of monetary instability in a number of other countries. Some carried the doctrine of monetary stability to such an extent that they reverted to what they thought was a fool-proof method of doing so, viz. the gold standard, as the UK did in 1925. I was in England at the time as a student, and well recall the discussions that took place. The fact that widespread unemployment and distress arose out of the attempt to make the stability of the currency the main objective of state policy was regarded as being of relatively secondary importance; it was just one of those incidents, like poverty, which could not be helped even in a well-regulated society. Even where the gold standard was abandoned, it was regarded as a matter of fundamental importance that currency stability should be preserved, and the operations of central banks were directed towards this end.

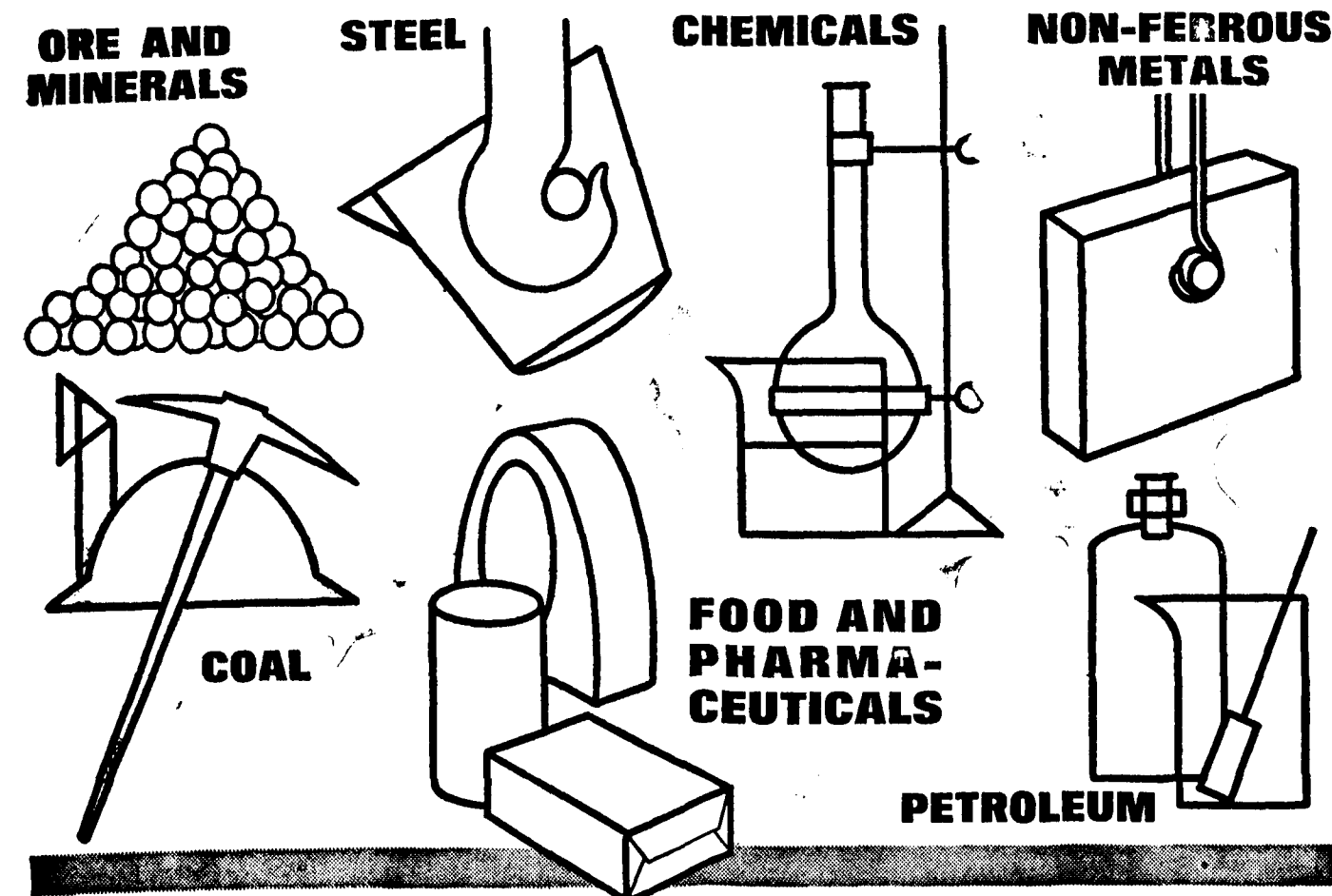
Ineffective Techniques

The Reserve Bank started operating in conditions in which the application of the techniques used by central banks in advanced countries was liable to be largely ineffective. Thus there was no bill market. The money market was highly restricted. A considerable volume of internal trade was financed by the so-called unorganised market; certain calculations shown to me in the Reserve Bank suggested that the volume might have been as much as 90 per cent of the trade. There was a substantial number of transactions carried out on a simple barter basis without the use of money. Before the Reserve Bank could settle down to the job of considering how, in these conditions, it could operate so as to preserve the stability of the rupee, the war intervened and created a variety of problems including a rapid rise in prices internally and the gathering of substantial sterling reserves in London. For a couple of years after the war there was widespread civil disorder leading eventually to partition. As a matter of historical retrospect although, during the war, the Reserve Bank had a number of highly complicated technical operations to carry out, it was not till after independence that it really got down to commencing its main job of work as a major partner in the carrying out of government's economic policy. And in 1951 the era of planned economy was started.

The essence of a planned economy, in so far as the Reserve Bank of India is concerned, has been that certain financial and physical targets are set up during successive periods of five years. In deciding on these targets, government primarily has in mind a certain rate of growth in the national income. The question has never been, to start with, what are the resources available and what can be done with them, but rather what is it that we must do and how are we to find the resources for it? It will be recalled that the basic concept set out in the first five-year Plan was that the per capita income should be doubled over a period of 20 to 25 years. Successive five-year plans broke this further down to periodical components, but the plank on which government stood was a certain predetermined rate of growth.

It would be foolish to imagine that while setting out its target the Planning Commission or the Government of India were merely indulging in wild day-dreams. It is theoretically

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conceivable, for instance, that they could have planned for a faster rate of progress, but everyone realised that such a rate could not, in practice, be either initiated or sustained, so that while the basic concept of a certain assumed rate of national growth was there, the mind of the planners was never too far from the question of resources. The first innovation that was introduced in India into the techniques of planned development was that of deficit financing. It was accepted that without the deliberate creation of money to assist in the process of planned development, the economy would continue to be stagnant. The Reserve Bank had thus to operate under conditions in which (a) the economy had to move at a certain predetermined rate and (b) to render this rate feasible a certain volume of deficit financing had to be incurred by the state.

These conditions were such as to make the task of the Reserve Bank exceptionally difficult or even impossible but, to the best of my knowledge, the Bank was not formally consulted on either of them. So far as I could discover, there was no formal consultation with the Bank by the Government of India on the figures contained in the second five-year Plan. But I imagine that if the Bank wanted to do so, it could always express its views and, indeed, it would have been its duty to express its views. But in the earlier years the question of inflation really did not arise as a matter for serious consideration. Indeed, during the first five-year Plan, there was, at one stage, a substantial drop in prices, so substantial that government had to undertake price-support operations. There was, likewise, no question of substantial foreign aid because, in fact, the sterling balances went on accumulating in the earlier years of the first Plan rather than being drawn down. I am not surprised that, in this situation, the Reserve Bank did not feel called upon to express its views to the government on the implications to the economy of predetermined rates of growth and of the injection of created money for the purpose of development. It was when the sterling balances started going down and the price level started going up—these two, of course, are not necessarily inter-related phenomena—that the Reserve Bank started seriously to consider where its duty lay. I believe that before the third five-year Plan was formulated the Bank asked for an opportunity to express its views and one of the major exercises that were carried out in the Department of Economic Research when I was in the Bank was the assessment of the quantum of deficit financing which, on all assumptions that could be reasonably made at the time, could be regarded as non-inflationary. On the basis of the draft third five-year Plan this figure was assessed at Rs 550 crores and was communicated to government and accepted by it. It is a matter of history that this figure was largely exceeded.

Control on Prices

I do not know whether the Bank ever formally accepted the proposition that in an era of planned economy, with development carried out with the assistance of created money, and in the context of an agricultural situation which is liable to be highly vulnerable to climatic factors, the country should always be prepared to accept the possibility of a rise in prices. But it is not necessary for the Reserve Bank to take up formal positions in such matters. Communications between the Bank and government take place both formally and informally, and I myself introduced what was then regarded as an innovation of making public pronouncements. I repeatedly stated that I accepted the position that a certain degree of price increase was inevitable, but I suggested that such increase should not exceed some two to three per cent per year. I also suggested, following a thesis put forward by Prof. Arthur Lewis, that in order to maintain confidence in the currency, government should so organise affairs that the increase was occasionally interrupted by a fall. This was to give the impression, psychologically most important, that government were always in control of the situation. It is matter of history that till

the time of the Chinese attack in 1962 and the very large scale escalation of defence expenditure that took place thereafter, the rise in the price level was confined to these dimensions and was thus within the limits of tolerance that the Reserve Bank accepted. In other words, the Bank did not claim that absolute monetary stability—if there is ever such a thing—was possible and agreed instead that a mild and almost continuous degree of price inflation had to be accepted as the necessary price that the country had to pay for economic progress. This was a vital change from the Charter contained in the Reserve Bank of India Act, a change that took place insensibly and virtually without discussion.

Since 1962 the position has deteriorated very rapidly. The wholesale price index which was 125 in 1962 is now in the neighbourhood of 220. There could be no pretence that the degree of price inflation that has taken place has not been such as to cause the most serious concern, and one of the questions we might well consider is whether the Bank took all the steps that it could reasonably have taken to arrest the rapid deterioration of the price level or, to put it in language more appropriate to the Bank's Charter, to arrest the rapid erosion in the value of the country's currency.

Two Propositions

It is necessary to make, straightaway, two propositions. The first is that I do not believe that government has, at any time, been out of step with the Reserve Bank in thinking that the maintenance of a reasonable degree of price stability is an essential foundation for orderly economic progress. In other words, on the principle involved I do not believe that there has been any controversy between government and the Reserve Bank. What has been at issue is the ability of government to take steps—difficult and unpopular steps—in the budgetary field to give effect to this accepted policy. The second proposition is that in the ultimate resort, whatever might be the advice of the Reserve Bank, it is government who has to make a choice as to the total limits of public expenditure, both planned and unplanned. What matters, of course, is not merely the total expenditure but also its distribution between sectors which are quickly productive, which are productive only after several years, and which are wholly non-productive such as defence expenditure and civil expenditure not connected with development. The Reserve Bank, for instance, could have no possible say in the matter of the quantum of defence expenditure that government considers to be essential for maintaining the security of the country. In the matter of certain types of non-productive civil expenditure as well, such as the quantum of dearness allowance to be given to government staff, the issue is not merely a financial one, but also one of security in so far as the police forces are concerned and of the maintenance of reasonably stable working conditions in government offices so far as the other categories of servants are concerned. All that the Reserve Bank could legitimately do is to point out the inflationary effects of mounting government expenditure and to advise slowing down. I have never had any doubt in my mind that while the Bank has a definite role to play and must play it in disdain of incurring displeasure, it cannot set itself up as a parallel government. There could be only one central government in the country and that government must accept the full responsibility for overall economic policy. If the Bank feels that its advice is being flouted in a cavalier fashion, the governor has the remedy in his hands.

There is no doubt that during the last five years the situation has been threatening to get out of control, more particularly during the last two years when we had widespread failure of rains. The government has been in an exceptionally difficult position; and while it is clear in retrospect that they have committed a number of errors the fact is that the Reserve Bank found itself in a position in which the quantum of government expenditure was exceeding all limits

of safety from the point of view of the maintenance of the price level. The question that it had to consider was what it could do in this situation.

A very able exposition of the approach of the Reserve Bank is contained in a paper published by two former colleagues of mine in the Bank, viz, Mr Pendharkar and Mr Narasimhan. This is a paper entitled "Recent evolution of monetary policy in India" and was published in the April issue of the Reserve Bank of India Bulletin in 1966. I would recommend that those of you who are not unaccustomed to some amount of technical phraseology go through this document. It is not necessary to agree with all that has been stated in this paper. For instance, on the question as to whether an increase in rates for deposits would, in Indian conditions, necessarily attract to the banking sector an appropriate increase in savings, it is possible to have views different from those of the authors. Likewise, whether an increase in advance rates has really dampened down the demand for money for inventories is a debatable proposition. But in my view the paper contains, in general, a cogent justification for the policies pursued by the Bank from time to time. It has been a difficult situation for the Bank and the situation has been changing all the time. Instead of sitting with folded hands and taking the line that any action that the Bank could take could only have a marginal effect, the Bank has adopted a policy of continuous improvisation, making use of a variety of techniques that were open to it. As a matter of purely technical competence, I feel that the Bank deserves to be complimented for the work that it has done. But it has to be frankly recognised that in so far as the effect of the Bank's monetary policy is concerned on the stability of prices, that has been purely marginal. All that one could say is that things might have been much worse but for the Bank.

Efficient Working

May I make a general point at this stage? It is unfortunately not the practice in our country to offer words of praise to anybody of public servants. Good work is taken for granted. On the other hand, bad work or what could even remotely be regarded as bad work is immediately pounced upon. The consequence is that all that the public hears is a series of complaints and allegations against public servants. I have come into contact with central banking institutions in many countries, and I can say with confidence that the staff of the Reserve Bank of India is, by any standard, a highly competent staff. Sometimes they slip up, but where they do so is in the administration of certain pettyfoggish controls, such as the control on foreign exchange permits for travel, and the like. And I am not sure that the blame should always be attached to them.

The general impression that you may get from the above very broad exposition may be that the role of the Reserve Bank is largely regulatory. And, indeed, many of the propositions discussed in the note that I have referred to by Mr Pendharkar and Mr Narasimhan refer to regulatory aspects of the Bank's operations. This, however, would be a major misconception of the role that the Bank is playing in a planned economy. The principal concern of the state, apart from formulating the plans and carrying them out, must be to ensure that the necessary volume of resources is collected. These resources accrue partly from taxation and loans and partly from deposits by the public in banking institutions. It is in this matter of the gathering of the savings of the community in an organised manner that the Bank has played a vital role.

The first preoccupation of the Bank was to see that the public has confidence in the banking system. It is not to be supposed by any means that this confidence has always existed. Indeed, in the course of World War II, a large number of mushroom institutions was floated in our country under grandiloquent names, and quite a few of these were run

in a wholly unbusinesslike and some in an actually dishonest manner. One of the major jobs that the Reserve Bank had to do, in order to establish public confidence in the banking system and thereby to encourage people to deposit their money with them, was to get rid of these dubious institutions and to see that the banks that remained after this operation were sound and run in such a manner that the public felt secure about their deposits.

This has been a major task and has taken several years. I do not know that it has yet been fully done, but I believe that the bulk of the job has been carried out. Initially the process consisted of inspections and of constant advice but, after the crash of the Palai Central Bank, the pace was accelerated by compulsory amalgamations. As a consequence, we have now a system of commercial banks of which it can be said that they are operated in such a way that the public has confidence in the security of their deposits. This confidence has grown all the more with the introduction of the Deposit Insurance Scheme whereby an Insurance Fund guarantees the safety of deposits up to a certain sum. Considering that the number of banks concerned has been very large, with wide geographical coverage, and that the staff required for the purpose of inspection has never been too large, this is a job that in my judgement has been well done.

A Valid Criticism

A constant criticism of the commercial banks has been that, by and large, they operate only in the urban centres and that the enormous rural hinterland, including the smaller towns, has been left completely uncovered. This criticism was very largely true and was sought to be met in two ways—firstly, by the virtual nationalisation of the old Imperial Bank of India and a statutory requirement that the State Bank should open a large number of branches, and secondly, by an encouragement to other commercial banks for large scale bank expansion. The total number of branches in India at the end of 1955, soon after the Imperial Bank of India was converted into the State Bank of India, was 2790, and the number today is over 6400. The State Bank has been much more vigorous in rural areas than the other commercial banks. The deposits of all the commercial banks has, likewise, grown from approximately Rs 1000 crores to Rs 3400 crores. On the whole, I consider that this is a pretty good performance, though one could always argue that it could have been better. This increase in deposits is the result of a deliberate policy of increasing institutional agencies for mobilising savings.

Another criticism of the banking structure in the past was that, by and large, it catered only to the comparatively well-to-do sections of the community and that the poorer sections were completely ignored. In the field of industry, for instance, only the large scale industry was catered for and the small scale industrialist necessarily had recourse only to the unorganised market where rates of interest were very high. The Reserve Bank took up this matter and has systematically tried its best to see that the commercial banks also cater to the needs of the small scale industrialists. It is true that the banks are making use of depositors' money; and it has always to be kept in mind that to make large advances which may be irrecoverable or frozen is to do great damage to the entire economy. But a balance has to be struck between the requirements of safety and the need for a progressive outlook in the coverage of customers for bank loans. I regret to say that I do not think that the Reserve Bank has had very much success except with the State Bank of India. By and large, the other commercial banks have been extremely conservative in this matter. I recall some years ago sending for representatives of the major banks and telling them that not merely on the merits of the case but also as a matter of public relations it was essential for them to set apart a portion, even a small portion, of their deposits, for being advanced to small scale industrialists. In order to give them an incentive for

this purpose, the Reserve Bank introduced a scheme whereby losses on such advances would be shared by the Reserve Bank. I consider it a pity that not much advantage of this incentive scheme has been taken by the commercial banks. I rather think that one of the grounds for recent criticisms against major commercial banks is precisely this—that in their lending policies they are overweighted in favour of the bigger industrial interests.

It is, however, in the field of co-operative credit that the Reserve Bank has followed a most dynamic and imaginative policy. Before I go into this, let me say a few words about what I regard as two wholly misconceived criticisms of the commercial banks since the era of planned development was started.

The first criticism is that banks have not followed any system of priorities in the allocation of advances; and, in fact, this seems to be one of the reasons advanced for nationalisation. Now, in the ordinary course, the role of a commercial bank is to gather deposits and to advance loans, subject to suitable safeguards regarding liquidity, so as to obtain a reasonable profit. Where there is planned development and certain priorities have been conceived by government, one would imagine that the commercial banks would be advised to spread their advances in accordance with such priorities. The situation has developed in such a way that the banks have been told from time to time what not to do and very rarely, if at all, what to do. For instance, they have been asked not to give advances beyond certain limits against rice or wheat during periods of scarcity; they have been asked not to give advances against shares and securities beyond certain limits; but they have not been told that they must, as a matter of priority, lend to certain sectors to the exclusion, partial or total, of other sectors. It seems to me an unfair argument against the commercial banks of the country that they have not followed a system of priorities. The failure is not of the banks but lies in the absence of any central authority to which has been allotted the task of securing that bank advances follow a system of predetermined priorities.

Neglected Farming

The second criticism is an extension of the first and is to the effect that commercial banks have given hardly any advances to the farmer. I am surprised that the real answer to this criticism has not been more effectively made, although I know that it has been made. The real answer is that it was never the intention of anybody that commercial banks should engage themselves in direct loans to the farmers and, indeed, if anything the idea has always been that that is the job that is best left to co-operative societies, district co-operative banks, state co-operative banks and specialised co-operative institutions such as land mortgage banks. This was agreed on all hands during the earlier years of planned effort and reiterated as recently as in the year 1964 by a committee set up by the Reserve Bank consisting of the governor himself as chairman, some of his official colleagues and some most distinguished co-operators in the country, viz, Mr V. L. Mehla, Prof. G. R. Gadgil, Prof. D. G. Karve and Mr R. G. Saraiya. The considered conclusion of this committee was that "for the proper dispensation of agricultural credit in the conditions of the Indian rural economy, there is no alternative to the co-operative agency and that for the successful working of the co-operative agency it should take the form of a three-tier federal organisation." The charge against the commercial banks in this context is due either to colossal ignorance of the decisions taken from time to time or is a deliberate alibi on the part of politicians for their failure in a field where non-official effort and inspiration have been supposed to be supreme.

One of the earliest tasks that the Reserve Bank took upon itself was the problem of organising rural credit. For this purpose it was first necessary to gather facts. A great handicap in our country in the past has been the absence of adequate

statistical information on which to base policies. Such information was particularly lacking in the matter of agricultural credit. How much did the farmer borrow? From whom did he borrow? What rate of interest did he pay? How did he use the money which he borrowed? In order to get comprehensive information on this subject, the Reserve Bank set up a statistical investigation on massive lines. Apart from the decennial census, I believe this has been one of the most monumental, certainly one of the most important, tasks undertaken by a statistical department in India. It was on the basis of the information collected during this survey that the Reserve Bank recommended policy changes. These have all been set out in the Rural Credit Survey Committee Report.

The Reserve Bank discovered that not more than 3 per cent of the credit taken by the farmer came to him from co-operative societies. It was clearly necessary that the farmer should be weaned away from the clutches of the usurious money lender and encouraged to turn increasingly to co-operative societies for his credit requirements. The committee made various policy recommendations in this matter, one of the most fundamental being that in view of the vast disparity of strength between the farmer in the village and the organised money market represented by the urban financial institutions, co-operative societies should be strengthened by the partnership with government. It is not necessary for the purpose of this lecture to go into all the recommendations made by the committee but it is enough to say that these did involve substantial credits from the Reserve Bank to co-operative institutions based on their functioning as viable units.

Mismanaged Co-operatives

I regret to say that there has been great failure in this field but not on the part of the Reserve Bank. As a result of strenuous efforts made by the Bank, the percentage of loans taken by the farmers from co-operative institutions has gone up from 3 per cent as reported by the Rural Credit Survey Report to approximately 25 per cent and a good portion of this is money lent by the Bank itself. This is a considerable improvement but it indicates, I fear, more an anxiety on the Reserve Bank to pump in credit for agriculture to the limit than an improvement in the absorbing capacity of co-operative institutions. The truth of the matter is that overdues are heavy and mounting up, too many societies are very badly managed, and quite a number of them are dormant. The situation is actually worse than appears from published statistics because a certain amount of window dressing goes on, on the last day of the year, which obscures the real situation.

It is not necessary in the context of the subject-matter of today's talk to go in any great detail into the question of who is responsible for the failure of the co-operative movement, but I think it is necessary frankly to point out that the responsibility lies to a very large extent in the hands of non-officials, including politicians. For some extraordinary reason, although government accepted the recommendations of the Rural Credit Committee and, in particular, the recommendation that to shore up the strength of co-operative societies they must have the full backing of government, an amazing amount of prejudice arose against the association of officials with the movement. It was said that co-operation is and must be a purely non-official movement and must not be sullied by the association of officials. Every effort was therefore made to disassociate officials from the organisation and functioning of societies. This went to such an extent that even in the matter of co-operative education, the Reserve Bank which was running a training institution for co-operative officials was told that this was none of their business and that the training must be handed over to purely non-official agencies. In strict theory this opposition to the association of officials was correct but in practice it proved disastrous, for the people who were supposed to put selfless service behind the movement proved, except in certain isolated areas, either incompetent or selfish.

I have mentioned the above point because it has some

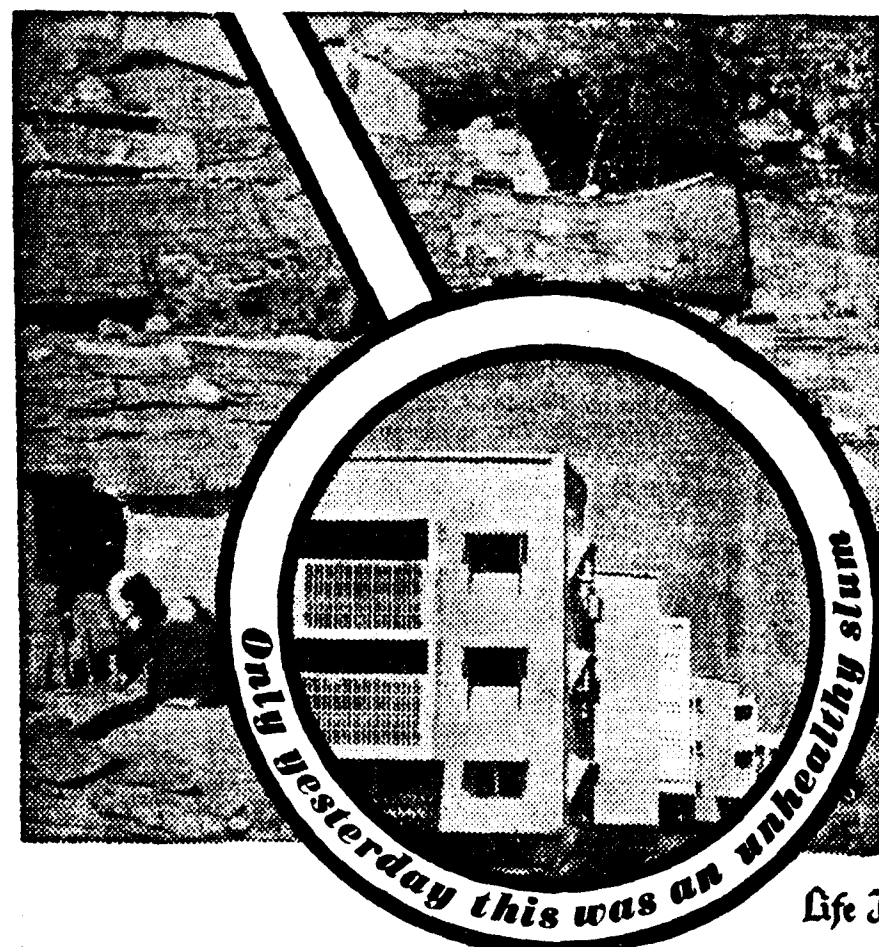
relevance in the context of the ideas that have been made from time to time regarding the nationalisation of commercial banks. I had hoped that this idea was dead but apparently it is not. If I was a theoretical economist living inside the cloistered cell of an academic campus and divorced from the rough and tumble of practical administration, I imagine I could make out a case for nationalisation on the ground that that might be a tidier arrangement for ensuring credit arrangements on a priority basis. Without going into other arguments many of which are quite valid, such as the degree of control vested in the Reserve Bank, but sticking for the moment to the pure and simple matter of administrative competence, I regret to say that not only do I not see any possibility of improvement as result of nationalisation, but I foresee the intrusion of politics into a field in which politics ought to have no place. Let me give you an illustration of what I really have in mind. After World War II the French government nationalised the commercial banks of the country. This step was taken under somewhat exceptional circumstances and I am not at all certain whether, if the matter came up again, the French government would want to nationalise banks. However that might be, these banks after nationalisation were put in the hands of some of the ablest men in the country, several of them civil servants, and they were asked to function exactly like other commercial banks, that is to say, in competition with each other. This went to such an extent that I was told by the chairman of one of the nationalised French banks a few years ago that at one stage the French government withdrew their deposits from the London branch of this bank and placed them with an English bank because the latter gave them somewhat better service and somewhat finer terms in the matter of foreign exchange. If one could be certain that the ablest people possible would be put in charge of nationalised banks and were left to carry out their operations without interference from politicians, perhaps no great disaster would happen. But the functioning of our public enterprises has shown repeatedly that they suffer from some peculiar misfortunes. It is noto-

rious, for instance, that labour relations in many of the nationalised institutions are actually worse than in many private enterprises. The Heavy Electricals at Bhopal used to be a startling example at one time. The Durgapur Steel Works is another, at the moment. I regret to have to say this about an institution of which I was once the chairman but although, in the State Bank of India, there are several dedicated officers, the discipline of the subordinate staff is getting such that the most simple services are not rendered without constant effort on the part of the customer. If only on the ground of efficiency, therefore, I would regard the nationalisation of banks as a misconceived move and likely to be contrary to national interests.

The Credit Council

I see from the papers that, for the time being at any rate, the idea of nationalisation has been put on the side and has been replaced by a proposal to have a Credit Council. It is not possible to comment on this without having more details of what is actually proposed, such as who the council would consist of, what its role would be, what would be its relationship to the governor and the board of the Reserve Bank. But as far as I can see at the moment such a council could render a useful service provided only that it confines itself to a discussion of broad issue of credit policy and indicates guide-lines to the Reserve Bank for detailed implementation. But whatever policies are recommended or decided by the council, it seems to me clear that in actual implementation the same problems which have bedevilled the co-operative movement will continue to arise in the matter of credit to the farmer. This will be so until we have a body, in sufficiently large numbers, of dedicated non-officials who will consider it a patriotic duty to devote themselves, heart and soul, to the welfare of the peasant class. In fact, the question of success in the co-operative movement raises much the same basic problem as questions in our political and social life, viz, have we a dedicated leadership at different levels?

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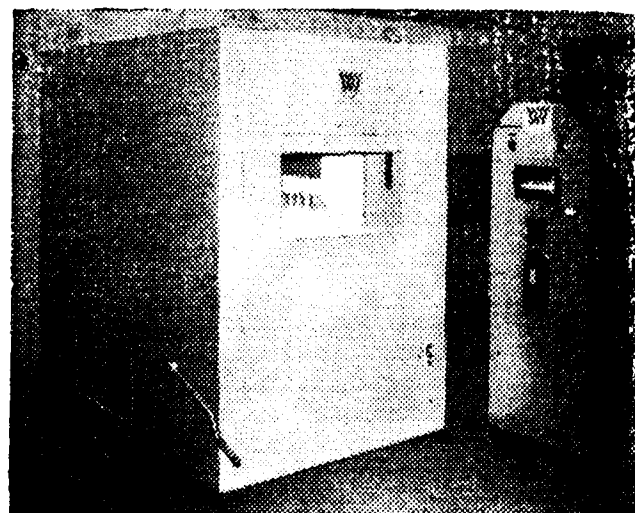
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Trends in World Trade—III

MANUBHAI SHAM

IN ORDER to promote the exports of developing countries, the issues which need to be tackled at once are:

- (1) Stable and remunerative prices for primary commodities,
- (2) Removal of tariff and non-tariff barriers,
- (3) Grant of preferential tariffs to manufactures and semi-manufactures from the developing countries,
- (4) Assured off-take, and
- (5) Industrialisation based on a dynamic division of labour taking into account the natural factors.

It is disturbing to find that the industrialised countries have enlarged their share of even the world primary exports specially during the last 10 years, while in the same period the share of the developing countries in primary exports (excluding petroleum) has gone down sharply. The developing countries have been doubly hit because in addition to the fall in their share of world primary exports, the terms of trade of primaries have registered a steep fall in relation to those of manufactures over the same period.

The need for giving top priority to the overhauling of the trade policies of the developed countries in respect of primaries therefore cannot be over-emphasised. The first thing to do would be to devise methods to secure fair and remunerative prices for the primaries exported by the developing countries. This can best be done through the system of international commodity agreements and the establishment of an "International Monetary Compensation Fund." Since the bulk of the trade of each of the developing countries depends on less than half a dozen primary products, the success achieved by the international community in tackling 20 major primary products over the course of the next five years through suitable international commodity agreements would go a long way in stabilising their prices. Agreements have already been concluded on tin, coffee, wheat and olive oil. Commodity agreements on cocoa, sugar and natural rubber are already on the anvil. The experience of these commodity agreements can be drawn upon to conclude additional commodity agreements in respect of such commodities as bananas, rice, tea, oilseeds and vegetable oils and jute and jute manufactures. Also appropriate action in the international field needs to be taken in respect of shellac, tobacco, cotton, wool, spices, iron ore, manganese ore, mica and such other products of export interest to the developing countries.

Compensation Fund

Through these agreements and through the establishment of the "compensation fund", an effort should be made to eliminate excessive price fluctuations and give increased earnings to the developing countries from exports of primary products. In fixing prices, care must be taken to ensure that they are fair and remunerative; also they should not be too high to encourage over-production or the growth of substitutes. The agreed prices should be high enough to maintain and increase the purchasing power of developing countries in relation to their imports.

While formulating international policy for primary commodity trade, account should be taken of the growing threat from synthetics and substitutes. World trade in synthetics and substitutes should be regulated so as to cause the minimum dislocation to the exports of natural products from developing countries. Not only the developed countries should remove all barriers affecting the trade of primary products of developing countries but also extend financial and technical assistance for finding new uses of these products.

The successful working of the international commodity agreements however is intimately bound up with the institution of an "International Monetary Compensation Fund" which should permit automatic reimbursement to the exporting coun-

tries in the event of world primary prices sagging below the floor price. Such a fund can be financed by:

- (1) Voluntary contributions from the rich countries which are the principal consumers of primary products,
- (2) The profits from the sale of the stockpile through the operations of the buffer-stocks, and
- (3) Depositing the excess over the ceiling prices when the prices spurt abnormally (surplus being deposited into the fund).

This compensating mechanism should be invoked only when other methods of stabilising primary prices through regulation of production and consumption fail in any particular period to keep the prices at agreed levels.

The access of a wide variety of primary commodities of export interest to the developing countries into the markets of the developed countries is restricted by quantitative barriers, tariffs and tariff-like charges on imports. The most objectionable of such barriers are the high tariffs on items processed from primary products and taxes on primary commodities. In almost every group of commodities the tariff rates increase with the degree of processing so that finished products have to bear very high duties. Industrialised countries should remove this discrimination against the processed goods exported by developing countries.

The second UNCTAD must set a target date by which all tariff duties wherever they exist on primary products are removed. The developed countries must also set a target date for the removal of internal duties and cesses which work as indirect tariffs on the import of primary goods originating from the developing countries.

Quantitative restrictions intended to protect domestic industries constitute a major non-tariff barrier to exports from

Eastern Economist 20 Years Ago

JANUARY 9, 1948

The Thirtieth Session of the Indian Economic Conference held at Calcutta during December had the distinction of being the first session held in a free India and it was a good occasion for somebody asking how the Indian economists should make themselves even more useful in tackling the complex issues facing the country. It may not perhaps be possible to take the valuable advice of Mr Rajagopalachari, Governor of West Bengal, in his inaugural address that the conference should appoint for the whole of India a panel of economists, recognized as truthful and safe leaders in this branch of science, to give their authoritative opinion, without waiting for sanction from the Government. Economists in this country cannot be accused of having withheld their opinions or advice whenever it was asked for and not seldom have they spoken out their minds much to the chagrin of the Government. Less intractable opinion has been available to the Government from their Economic Advisers who generally continue to be members of the conference. The Consultative Committee of Economists appointed during the war and still in existence, is broadly representative of economic opinion and, reconstituted and reorientated, may serve as the kind of Brains Trust which the Governor had in view. There is thus no dearth of impartial and unbiased economic opinion, in spite of the limited number of really first rate economists; the point is: will the Governments take the advice of even such a body and consider economic questions on an economic plan?

the developing countries. These quantitative restrictions are a greater obstacle to trade than tariffs and fiscal taxes because they impose a physical limit on imports into the developed countries. The developed countries must set a target date by which all non-tariff barriers including quantitative restrictions, quotas, anti-dumping laws, health and sanitary regulations and all other regulatory mechanisms are removed. Pending the elimination of internal duties and fiscal charges, proceeds of these charges should be progressively refunded to exporting countries.

The exports of manufactures and semi-manufactures from the developing countries should be granted a non-discriminating preferential tariff treatment. If the preferences are to be of real benefit to the developing countries, they should be granted on a universal, non-discriminatory and non-reciprocal basis. Such preferential treatment in fact would mean either duty-free entry or entry at rates lower than the most-favoured-nation rates for all manufactures and semi-manufactures originating from the developing countries. Non-discriminatory preferences are essential because they alone would help to bring the existing systems of preferences and groupings such as the Commonwealth, the Association of Overseas States with the ECM, the EFTA and various other regional economic groupings under a generalised scheme of preferential treatment by the developed countries for imports of manufactures and semi-manufactures originating from the developing countries.

Although imports at preferential rates from the developing countries to the developed countries should be without any quantitative limits, circumstances may arise in which such imports may injure the domestic markets and may necessitate imposition of restrictions on imports from a preferential source. Such circumstances—otherwise called “market disruption”—should be clearly defined and criteria should be established for determining the nature and extent of action to be taken by the developed countries in suspending preferences. Normal growth in imports from preferential sources should not be prevented by such action.

Technical Assistance

The provision of universal non-discriminatory preferences alone will not help in raising exports of manufactures and semi-manufactures from the developing countries. The scheme, to be of real value, should also provide for technical and financial assistance to enable those countries to establish and promote export-oriented industries in order to take full advantage of these preferences. International agencies such as the UNIDO could also help by making their contribution in promoting the manufacturing sectors in the economies of these countries.

The developed countries should take specific steps to allocate a definite percentage of their consumption of such products to developing countries and see that substantial share of their domestic demand is met by the developing countries. These steps should include a commitment not to increase uneconomic production in the developed countries of primary commodities of interest to the developing countries beyond certain predetermined levels and abolition of subsidies on such production.

The developed countries must take steps to extend financial and technical assistance designed to ensure the diversification of the economies of the developing countries. The industries which need to be singled out for attention by the developed countries should be those which are based on processing of primary commodities which are at present being exported in raw form. As the per unit return in terms of foreign exchange is much greater for the processed materials as compared to the unprocessed primary commodities, the developed countries can help the developing countries in the processing of their raw materials into finished products for exports.

Any help rendered to the developing countries in setting up industries for processing primary products would therefore

bring about a definite rise in the foreign exchange earnings of the developing countries.

In order to achieve the greatest flow of trade between the developing countries and the developed countries a new and dynamic concept of international division of labour has to be evolved. Industrialised countries should help create conditions in developing countries for making the fullest use of their available resources.

Among the steps which the rich countries can take to bring about a diversification of the developing countries' economies is to give up in a phased manner the manufacture of simpler products both in respect of capital and consumption goods. The developed countries should concentrate on the manufacture of complex machinery and equipment and highly sophisticated consumption goods. Industrialisation of the less-developed countries will be promoted by gradual industrial transformation based on international division of labour in harmony with natural factors. While the complex capital and consumption goods should be produced by the developed countries, the labour-intensive and less capital consuming processes and their production should be transferred to the developing countries. The developed countries should do so over a period of five to fifteen years. This will enable the developing countries to share the benefits of modern science and technology and thus get started on the road to industrialisation. The developed countries should encourage the transfer of knowledge and technology to developing countries which will enable their manufactured products to compete in world markets. The developed countries should persuade their enterprises not to impose restrictions on the use of patents and trade marks in developing countries. International co-operation should also be secured for disseminating trade information particularly with regard to the opportunities offered by the markets of the developed countries

(To be continued)

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FROM THE CAPITAL'S CUPBOARD

Tax Credit Certificates Again ?

ALTHOUGH EXPORT earnings during the seven months to September 1967 at Rs 692.2 crores were 5.7 per cent higher than the export earnings during the corresponding period in 1966, there is a growing recognition in official circles that there is need to provide greater export incentives and to remove some fiscal impediments in the way of exports. The Indian Institute of Foreign Trade is understood to have recently completed several studies in this regard. Consultations are said to be going on between the union Ministries of Finance and Commerce, on the basis of these studies, in regard to the measures that may have to be taken to boost exports.

It is felt that apart from modifying the export duties on several items, the cash subsidy, which is being provided at present for exports of some engineering goods, may have to be supplemented with other incentives. One form of incentives suggested is the revival of the tax credit certificates scheme.

It is further felt that a scheme of financial assistance should be drawn up with a view to helping our traditional industries to diversify their exports.

SHIP-BUILDING INDUSTRY BOARD ?

With a view to ensuring economic operation of the existing shipyards and fostering the ship-building and repairing industry in the country, the union Ministry of Transport is understood to have under consideration a proposal to set up a high-level body to be designated as the “Ship-building Industry Board”. The board will consist of representatives of the Ministries of Transport, Finance, Commerce, Industrial Development, Petroleum and Chemicals and the ship-building and ship-repairing industries. It will have an independent chairman with experience and background of the problems of commerce and industry

The principal functions of the board would be to advise the government on the various problems faced by ship-building and ship-repairing industries, including those relating to expansion and development of optimum utilisation of their capacity, development of ancillary industries, training of personnel and co-ordination of problems faced by the ship-builders vis-a-vis the shipping industry.

SLOW UPTURN

Despite the energetic steps taken by the engineering industry to diversify its product pattern and to step up exports, recessionary trends continue to persist in this industry. The index number (1956=100) for production of the engineering industries looked after by the Directorate-General of Technical Development, which rose from 303.39 in January 1967 to 349.68 in March 1967 fell to as low as 295.17 in August and further to 289.08 in September. For the nine-month period up to September 1967, however, there appears to be some improvement compared to the previous year. The index for the nine months to September 1967 has worked out to 312.4, as against 306.43 for the calendar year 1966.

COMMERCIAL VEHICLES DOWN

Contrary to the expectations that the demand for commercial vehicles would pick up following the bumper kharif crop this year, the output of commercial vehicles even in September and October last has been substantially lower than in the corresponding months of the previous year. In October 1967, for instance, we produced only 2,571 commercial vehicles as against 2,711 in October 1966. Even at the reduced level of production,

the stocks of assembled commercial vehicles were said to be mounting.

CEMENT EXPORTS

In order to minimise the loss on exports of cement and to keep the subsidy at a reasonable level, cement exports, it is learnt, may be linked with exports of such deficit petroleum products as kerosene and furnace oil. The State Trading Corporation, it is understood, will be exporting this year nearly 75,000 tonnes of cement to Kuwait in exchange for kerosene. The Associated Cement Companies have drawn up a plan to export nearly half a million tonnes of cement to West Asia.

DISTORTION OF FACTS

An instance is now available of how the dismissed Ajoy Mukherjee government had been misreporting to the union government on the state of affairs in West Bengal during its tenure of office. In the nine months to September 1967 the West Bengal industries lost due to strikes as many as 2.4 million mandays—the highest for any state in the country. But the production loss reported was only to the tune of Rs 38,600. The production loss resulting from a little over a million mandays lost in Bihar during this period amounted to as much as Rs 6.16 crores. The figures for some of the other states are as follows:

State	Man-days lost	Production loss
Kerala	291,580	Rs. 93.86 lakhs
Madras	291,230	Rs. 71.51 lakhs
Andhra Pradesh	211,774	Rs. 94.74 lakhs

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WINDOW ON THE WORLD

World Repercussions of OECD Policies

JOSSLEYN MENNESSY

FIVE DEVALUATIONS

LONDON:

THE SLOWING down of the growth in economic activity in the countries of the OECD at the beginning of 1967, according to the latest issue of the OECD's authoritative "Economic Outlook" (2 rue Andre-Pascal, Paris-16) came to an end—which should be good news for Indian exporters to the 21 OECD member countries. In the second half of 1967 to the second half of 1968, the combined GNP of OECD countries is likely to grow by more than 4.5 per cent compared with less than 3 per cent in the previous twelve months. As a result, the value of imports of OECD countries may now grow by eight per cent over the same period compared with less than four per cent previously. The acceleration of output and trade seems more securely established in North America and Japan than in Europe.

The devaluation of the £ on November 18 (14.3 per cent) was followed among OECD members by Denmark (7.9 per cent), Ireland (14.3 per cent), Spain (16.7 per cent) and Iceland (24.6 per cent). The UK accounts for nine per cent of world imports; the other devaluing OECD countries for four per cent, and non-OECD devaluers for another four per cent.

Devaluation has given UK manufacturers a net cost advantage of about 10 per cent (although the advantage varies widely according to the import content of components and raw materials and their sources). On normal assumptions about the response of trade to cost and price changes, the benefit to the UK trade account should be substantial and could, over time, even exceed the government's target of an improvement of £500 million. Excluding purchases of US military aircraft and the impact of temporary adverse factors, the UK current account was probably in rough balance in 1967. There are, however, risks as well as opportunities for the UK. The improvement in the current balance might well absorb two per cent of GDP in the course of 1968. Unless, therefore, the Wilson government severely restrains domestic demand, over-heating could develop, pushing up prices and incomes and soon cancelling out the competitive advantage of devaluation. Since public expenditure and fixed investment both seem likely to rise, there will be little room for any increase in private consumption and taxpayers are waiting, with what heart is left to them in their boots, to learn how Chancellor Roy Jenkins proposes to restrict their consumption. Spain, Denmark, and Ireland are also accompanying their devaluations with restrictive measures.

Uneven Repercussions

If these devaluations achieve the aim of devaluation, which is to restrict domestic demand, they will affect the balances of payments of non-devaluing countries. The depressive effect on demand of the UK devaluation will be measured by the shift in real resources which occurs in the UK. As noted above, this could be about two per cent of GDP in 1968 and if the devaluation were fully successful, it could rise to something like \$2,500 million by mid-1969. In quantity this is only a flea bite on the combined GDP of other OECD countries (\$1,270,000 million in 1966) and it is still small in relation to the annual increase expected. But the effect will be unevenly spread and could be nasty for some countries.

As a rule of thumb, the exports of other countries export-

ing mainly manufactures might be reduced by 1 to 1.5 per cent below what they might otherwise have attained. The amount will vary from country to country according to the importance to it of the UK market and the extent to which, elsewhere, it competes in the same markets and products as the UK. This could have a big impact on demand in such countries as Norway and the Netherlands, where exports of goods and services account for 40 to 50 per cent of GDP, but it will have no impact on the USA, the value of whose exports is a mere 5.5 per cent of GDP.

In a number of the smaller industrialised countries of OECD Europe, particularly Norway, Sweden and the Netherlands, compensatory action might be expected if a swing in the UK balance of payments of the order envisaged above began to appear. The positions of West Germany and France are less clear cut. Although in both domestic demand has picked up in recent months, there are some doubts whether faster expansion will be sustained throughout 1968, particularly in France. According to reports from West Germany received since the OECD "Economic Outlook" had gone to press, the West German economy resembles a rocket quivering on the launching pad before take-off. In the latter half of 1967, wage costs increased less rapidly than productivity as idle capacities came back into use. But the unions have a pent up demand and will want (to mix my metaphors) their cut of the cake if the rocket soars from the launching pad. However, the West German forecast for 1968 is real growth of GNP between three and five per cent. The direct effects of the UK devaluation should be small both in France and West Germany but there might be an indirect impact on business confidence from the unsettled state of international exchange and finance markets and, if this occurs, both countries will doubtless take fiscal measures.

Worsening Effect

The balance of payments pattern among OECD countries will be substantially affected by the devaluations, but the current balances of the non-devaluers will be less affected than their internal levels of demand because the devaluations will improve their terms of trade. Thus the UK devaluation—the predominant factor—might worsen other countries' balances by \$1.25 to 1.5 thousand million over the next 18 months.

A sum of this size, spread among the other OECD industrialised countries, would not itself create serious headaches, but the incidence will be uneven and there may, in addition, be a considerable impact from international movements of capital. There could be a massive reflux of the highly volatile funds which fled from London in previous months. Looking further ahead, confidence in sterling should grow steadily and this could eventually repercuss on other types of capital movements, in particular direct investment. Taking current and capital transactions together, the UK devaluation could in time substantially reduce other countries' surpluses, pushing some temporarily into deficit. If this led many governments to cut domestic demand back to protect their balances, the OECD thinks, this might be a clear sign—perhaps the first—of a generalised shortage of world reserves.

The OECD thinks that both the UK and the USA are countries in which relatively high interest rates are now appropriate for both domestic and international reasons. The same reasons in reverse suggest that most other countries in Europe should keep interest rates low and continue to try to bring long-term rates down further. Such an international pattern of interest rates would also maintain confidence in the international monetary system, which was inevitably disturbed by

the UK devaluation. But granted appropriate policies, the UK devaluation should have removed a major cause of world monetary instability.

In the first half of the 1960s, North America suffered excessive unemployment and under-utilised capacity, while Europe experienced excessive inflationary pressures. The OECD now wonders whether these trends are being over-corrected in the second half of the decade. The OECD hints that the outlook for 1968 suggests that excessive anti-inflationary measures might persist in Europe, but that the danger of inflationary wage and price rises lies chiefly in North America (See my report published on December 1, 1967). But in some other major countries and in several smaller countries, the OECD fears that the momentum of renewed expansion may prove less than needed for full employment in the long run.

II

ANTI-INFLATIONARY POLICIES

The check to expansion in 1967 was largely due to deliberate policies in a number of countries seeking to arrest inflation or to improve weak balances of payments. There was a risk that simultaneous policies in many countries might lead to a cumulative downturn throughout the OECD's 21 members. But the OECD believes that it is now reasonably certain that this risk has been avoided, thanks largely to the prompt expansion in the USA, Japan and Italy. What, then, did these anti-inflationary policies achieve and at what cost? What is important is whether the underlying rate of wage increases has been brought into line with the growth of productivity and how far the tendency towards excessive price increases has been eliminated.

The social cost was higher unemployment—although in most countries this was negligible by post-Keynesian standards. In Europe, there are also the consequences for the southern countries of reduced employment opportunities in the north. Some European countries now seem to be aiming at a somewhat higher margin of unused resources than prevailed in the early 1960s. Is enough being done by active manpower training and redeployment policies to minimise these social costs?

There are also costs arising from the slowdown of investment. Productive investment in the OECD area rose at most by one per cent in 1967 and will rise by perhaps three per cent this year, compared with an average six per cent in 1960-66. The OECD fears that even such a mild check to investment could, through its effects on the capital stock, prejudice the future growth of productivity. If the growth of total demand is resumed at a rate consistent with stable employment, investment over the long run is likely to catch up but this may itself pose problems. Coming a year or two after a serious setback to investment, the resumption of full employment may run up against capacity bottlenecks and engender a new investment boom. This risk will be more serious for countries with a low initial investment rate and/or a rapid increase in the population of working age.

In the light of these fears let us glance at the two contrasting economies of the USA and Japan.

The OECD thinks that the USA will emerge from the period of adjustment which started towards the end of 1966 without productive investment falling short of growth requirements. The series of recessions in 1953-61 not only left the USA with high unemployment but probably also with an investment rate low enough to impair growth in the longer run. The growth of investment which levelled out in 1967 is, however, likely to pick slowly up again in contrast to the previous cyclical experience. Although this may be due to the strong rise in military expenditure, prompt policy action was the major factor. This outcome is particularly welcome in view of the rapid growth of the US labour force.

I cannot help, however, wondering with the OECD whether the breathing space has been long enough to bring US inflation

under control. Part of the danger in 1965-66 sprang from the autonomous rise in agricultural prices, and part of the better price performance in the first half of 1967 came from the decline in those same prices. Wholesale food prices fell at an annual rate of 12 per cent between the September 1966 peak and the April 1967 trough. Industrial raw materials (particularly imports) prices also fell—the most sensitive index by 20 per cent.

The easing of demand pressures in early 1967 led to lower wage settlements. Average settlements in industry, however, which had been around three per cent in 1961/64, 3.8 per cent in 1965, and 4.4 per cent in 1966, rose to five per cent in the first half of 1967. The marked fall in the increase of labour productivity and the rapid rise in earnings has led to a sharp rise in unit labour costs in the short run. The poor labour productivity resulted because although output was falling, hours worked mostly remained unchanged. But in 1966, manufacturing labour costs were not higher than in 1960, as the average rise in hourly earnings of 3.7 per cent matched the rise in productivity.

Looking ahead, however, the risk of a renewed price/wage spiral looms. With a rise in food prices, consumer prices have been increasing at an annual rate of about four per cent since the spring of 1967 and in a number of important sectors (e.g., steel and motors) prices have advanced recently. If the current rise in US prices continues, and if demand in the first half of 1968 rises nearly as strongly as in the latter part of 1965 and early 1966, the rate of wage increase, following the recent Ford settlement, might make a continuing sequence of cost and price rises inevitable. The US government is alert to the danger; Congress and public opinion do not seem to be.

The picture in Japan (which, it is sometimes forgotten, is an OECD member—indeed, perhaps the brightest jewel in the OECD's economic crown) is more cheerful. Unanswered questions are fewer. Productive investment rose by 20 per



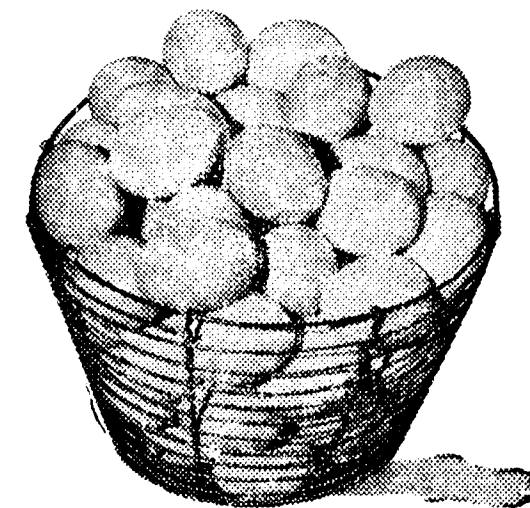
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cent in 1967 and is expected to continue strong this year. Even though labour market conditions have tightened over the last 18 months, cost-price relations remain satisfactory. Although the rise in monthly earnings in manufacturing has speeded to 14 per cent, still faster rising productivity has absorbed this. Both wholesale and consumer prices rose by only two to three per cent in 1967, largely because of rises in food and raw materials.

Japan is a country in which the quick response of investment to changes in cyclical policies has complicated the task of demand management. Sharp setbacks are followed by upsurges of investment demand difficult to control. Summing up these various factors, the OECD concludes that "if balance of payment considerations could be discounted, a policy which brought down the growth of investment demand to near the long run trend of 10 per cent, while avoiding a setback of 1962 or 1965 proportions, would seem appropriate." A wise pronouncement which reminds me of the advice that, when I was a stockbroker in Calcutta, I used to give clients who asked me how to make a fortune. "It's easy," I said. "All you have to do is to buy or sell Indian Irons judiciously." And if Calcutta contains more millionaires than other parts of India, you now know why.

Turning to the relations of the OECD countries with the developing countries, particularly of Asia, the present outlook for OECD industrial production in 1968 suggests that primary producers may expect some recovery of export unit values. Even allowing for the reduction in freight rates as world shipping adapts to the closure of the Suez Canal, the total value of OECD imports from the rest of the world may rise in 1968 by seven per cent with some bunching in the first six months as stocks are reconstituted.

With a rise of 12 per cent between the first halves of 1966/67, OECD exports to the rest of the world reached a

cyclical peak around mid-1967. Combined with the downturn in imports, this brought the OECD's trade surplus to an all-time high of \$5,000 million compared with the previous peak of \$3,000 million in 1961.

Much of this exceptionally large surplus was registered with countries in south-east Asia affected by increases in US spending in Vietnam. The OECD's surplus with Formosa, South Korea, the Philippines, Thailand and Vietnam reached an annual rate of \$2,000 million in the first half of 1967 against a mere \$500 million in 1961. The reserves of these five countries rose strongly in 1966 and in the first half of 1967. The level of US military expenditure, grants, and loans to them, is enough to finance the current level of their trade deficit with the OECD. The OECD trade surplus with other primary producing countries, however, reached a level incompatible with the net capital outflow recorded on average over the 1960s. Although the official reserves of these countries showed a slight gain in early 1967 (ignoring the usual mouth-watering accumulations achieved by a small group of oil producers and other high reserve countries), this was the result of an unusually sharp increase in the net capital outflow from the OECD area, which rose by \$1,800 million in early 1966 to a rate of some \$5,000 million in the 12 months to mid-1967. This shift was related both to the large rise in the OECD area's current surplus with the rest of the world and to much easier money conditions prevailing within the area since the end of 1966. A substantial part of this outflow was of private capital and originated in the extension of longer term trade credits to non-OECD countries. Unless this substantially increased capital outflow becomes permanent, the trade surplus recorded in the first half of 1967 must, according to the OECD, be regarded as unsustainable. In the near future I shall be publishing an analysis of long-term European credit facilities and policies towards the developing countries (including India) which will, I hope, throw some light on future trends.

The moving fingerprints

POOR, OLD 1967! To be blamed for the follies that foolish mortals would commit in the course of its days and weeks and months! Yet this much-maligned year did manage to have a few last laughs at your expense and mine and at the expense of the rest of us. My own favourite item out of the year-end bag of Life's little ironies is this:

On December 21 the UN General Assembly increased the basic salary of the Secretary-General, U Thant, from a net income of \$27,000 to \$31,000 a year. The world was informed simultaneously that, with his non-taxable expense allowance, which includes \$10,000 on housing, the Secretary-General would make more than \$64,000 a year. On the same day, i.e. on December 21, the Education Minister of the Government of India, Dr Triguna Sen, announced in Parliament revised pay scales for teachers in Delhi schools. As a result of the revision, assistant teachers of primary schools had their grade changed from Rs 118-225 to Rs 118-250 or Rs 126-270, depending on whether the teachers are matriculates or higher secondaries. Disclosing the new scales, the Education Minister took the trouble of making it clear that the revision had been done "as a special case". What Dr Sen did not mention was that some time ago the teachers had threatened to go on a strike and had been, with difficulty, persuaded to desist by mediators who had assured them that the government would give them a fair deal.

I am happy to say that I do not share the prevailing gloom regarding the future of higher education or indeed any education in our country. With Mrs Indira Gandhi conferring an honorary doctorate on Miss Padmaja Naidu at Santiniketan and Dr Triguna Sen declining an honorary doctorate from Banaras Hindu University, it is obvious that the torch of learning will continue to shine bright in this ancient land of ours.

It should be interesting to know what Mrs Gandhi is seeking to prove by speaking bits and snatches of various Indian languages on public occasions. I hope she does not imagine that she is going to solve the language crisis by this. In any case, what matters is not how many languages the Prime Minister can pick up after a fashion, but whether she can say "no" in any one of them. Sheikh Abdullah may soon put this to the test. Meanwhile, I must not withhold praise for Mrs Gandhi for so neatly debunking at a press conference the myth so sedulously fostered by the Sheikh lobby that Abdullah is Kashmiri.

As between Abdullah in the north and Anna in the south, the year 1968 seems to have started in a sorrier shape than 1967 was when it ended. It is a shame that Mr C. N. Annadurai and his coterie of self-appointed guardians of the Tamil language and Tamil culture should have so conducted themselves on the occasion of the Second World Tamil Conference held in Madras that what could have been a great cultural event in which all of India could have joyfully shared was reduced to a display of a mean and malicious parochial spirit. At this rate—and if Tamil is not rescued in time from its present-day prophets, priests and kings—Tamilians may soon have nothing to glory in, except their greatness, in the year 2000 B.C.

A few days ago, the Chief Minister of Madras was good enough to say that, so far as defence of the country was concerned, all states were one and united with the centre. He should realise that defence is more than a matter of men

marching when the guns begin to shoot. A nation is only as strong in war as it is in peace and its strength in both cases must come only from unity. Mr Annadurai cannot hope to make Tamilnad or Tamilians great by alienating or antagonizing the rest of the Indians and it is sad indeed that, by one act of silly controversy over the commemoration stamp, he should have shattered the stature which so many have laboriously been striving to build for him as a southern statesman to whom the nation may turn for bold and wise leadership. As against this, the statue of himself which the Chief Minister of Madras has permitted to be erected on a public thoroughfare in Madras city can only be poor compensation. Mr Annadurai, who ought to know only too well that he is no sculptor's dream of a Greek god, should have even less use than most for such melodramatic posturing.

* *

In the issue of 'Swarajya' dated December 16, 1967, Rajaji in his "Dear Reader" column wrote:

"In the 'Moving Finger' page in 'Eastern Economist' (Dec. 1, 1967) it is stated, among other things, that the Swatantra Party had made a 'tactical alliance with communist groups in Madras state for the purpose of forging a united front against the Congress party in the last general election'. This is not correct. The Madras United Front referred to was an alliance of only three political parties, the DMK, the Swatantra Party and the Muslim League. A few of the seats at the disposal of the DMK were given by the DMK to Communist candidates in order to avoid contest with the Communists, which would give an opening to the Congress in those constituencies. This was entirely an arrangement between the DMK and the Communist candidates concerned. The Swatantra Party had nothing to do with these subsidiary arrangements. Perhaps this explanation may appear to be academical. But this is the fact."

I stand corrected and I am grateful to Rajaji for this elucidation, which I think is highly useful in the present stage of our politics when the democratic parties opposed to the Congress should give serious thought to the next phase of organised action to improve their political positions and prospects. There is no gainsaying the fact that "the united front" as a mechanism for keeping the Congress out of the governments in some states is becoming a problem for non-Congress parties themselves. The factionalism which is raging behind the facade of these fronts has not only rendered them ineffective as functioning administrations but is threatening to bring the component political groups into public contempt.

If this process goes on, much of the good done by the last general election in shattering the Congress monopoly of political power would be lost. It is therefore important that non-Congress political parties should examine anew the principles and programmes of collaboration among themselves so that such collaboration becomes a wholesome process in forging constructive political influences outside the Congress complex. Here, the non-Congress political parties which have a clear faith in the democratic order of society have a great responsibility in working together to put an end to the kind of opportunism which has brought about impossible groupings of political bedfellows. I am sure that Rajaji's wise counsel will be available to all those non-Congress political leaders who are sincerely interested in organising more effectively and efficiently a democratic confrontation with the Congress.

V.B.

EASTERN ECONOMIST ANNUAL NUMBER 1968

This year's Annual Number of EASTERN ECONOMIST, which is just out, analyses the present state of the economy in terms of the recession and the prospects of recovery. It discusses the political and economic factors, both domestic and foreign, which have a bearing on the next stage of our planning and development.

A special feature of this Annual Number is a section devoted to the progress and problems of some of our major industries. An effort has been made in this section to define the specific issues facing these industries in terms of national needs and capabilities.

Profusely illustrated with charts and colour graphs and containing a useful compendium of statistics, the Annual Number is priced Rs 10 per copy. It is available at all the leading bookshops and can also be had directly from the office of EASTERN ECONOMIST, United Commercial Bank Building, Parliament Street, New Delhi.

New subscribers, who will enter their subscription for 1968 before March 31, 1968, will be entitled to the Annual Number free of cost.

Trade Winds

INDIA IS LARGEST TEA EXPORTER

INDIA HAS regained the premier position as world's largest tea exporter, which it had lost to Ceylon in 1965. In 1966 also India had trailed behind Ceylon when she exported only 199 million kgs. In 1967, our tea exports have already crossed 205 million kgs, as against 199 million kgs in 1966 and 179 million kgs in 1965. Production trends of tea throughout the year 1967 had also shown steady increase breaking previous records. In 1966 tea production reached the record figure of 375 million kgs. In 1967 the production figures have gone beyond 380 million kgs thus setting up another record. Comparatively speaking, the price of tea in 1967 has also been firmer than in the previous years.

U.S.A. APPLIES CURBS ON DOLLAR

President Johnson announced on January 1 measures to bring down the US balance of payments deficit, which is estimated at over \$3,500 million for the current financial year, by \$3,000 million. He ordered heavy curbs on overseas investment, reduction in lending abroad, cuts in defence and State Department expenditure and a voluntary programme to reduce tourism. While US firms have been barred totally from investing in Western Europe and South Africa, they will be allowed to invest in Britain, Canada and Australia at 65 per cent of the 1965-66 base period average. The President has, however, allowed investment in developing countries to continue at its present rate or even slightly above it, not exceeding 110 per cent of the investments in 1965-66. The investment-curb action would save \$1,000 million. The tourism deficit of the United States, which would exceed \$2,000 million this year, is expected to be brought down by \$500 million. The restraints on foreign lending by US banks and other financial institutions would reduce the payments deficit by another \$500 million. A new campaign is also being launched to increase US exports, and the possibility is also being examined of bringing home earnings accumulated by US-owned foreign business. Meanwhile, the President said, the US would abandon the practice of backing its bank note issue with a 25 per cent gold cover. The country's entire gold reserves would be available to back the price of gold at \$35 an ounce, at which price the dollar would remain convertible into gold.

FERTILIZER STUDY TEAM RECOMMENDATIONS

The following is the summary of the conclusions and recommendations of the fertilizer study team appointed by the Government of India: There should be single public sector fertilizer corporation; the corporation should be directed by a board of six or seven members, made up of full-time functional directors and two government representatives; the corporation's headquarters should be made up of the heads of functioning divisions who service and control unit and regional activities under a policy of wide decentralisation; complete administrative separation should be maintained between research, design and engineering groups on the one hand and production units on the other; the Planning and Development Wing and the Fertilizer Engineering Design Organization should be continued as entities under a technical director, who will be responsible for research, design and engineering functions; separate engineering of sub-plants at some projects by P and D and FEDO is feasible; a post of director of new projects should be established to be responsible for construction of all new projects and major expansions; indigenous design, engineering, and construction should be further developed by engaging Indian organisations outside the corporation to design and build structures and works not directly involved in chemical processes; separate groups should be established in the technical division to inspect and expedite the manufacture,

fabrication and transport of equipment made in India or abroad; a single marketing division should be established to market the products of all the manufacturing units of the corporation and such fertilizers as may be produced by plants in other public sector corporations as incidental to their major functions; and the marketing division should be organised by regions and areas to cover the country and these should function under the direction of the central headquarters.

The study team was set up to study the organisation, structure, etc. of the two public sector corporations (FCI and FACT), and determine the measures to be adopted for enabling them to meet effectively the problems and challenges that the rapidly rising fertilizer needs of the country are likely to throw up. The 10-member study team included four experts from the Tennessee Valley Authority of the USA.

PHOSPHATE EXPLORATION WITH U.S. HELP

India and the United States have signed an agreement for US technical assistance to speed up the exploration programme for phosphate, which is an essential ingredient of several types of chemical fertilizer. The project will be known as "Operation Softrock", in part to distinguish it from "Operation Hardrock"—an aerial and ground search for non-ferrous metals, like copper, lead and zinc which is currently in progress. Already substantial deposits of phosphate in the Mussoorie area of Uttar Pradesh and the Birmania area of Rajasthan have been located. The agreement provides for a loan of \$250,000 (Rs 18.75 lakhs) to finance the foreign exchange cost of the programme. The rupee expenditure on the experts assigned to the programme will be about Rs 10 lakhs and this will be met by the Government of India.

KENNEDY ROUND TARIFF CUTS

The United States and several other major Western trading nations have cut import tariffs on a wide range of manufactured and agricultural products. The reductions are the first of five annual cuts agreed last June by 46 countries in the Kennedy Round trade negotiations, the world's biggest tariff-cutting pact. The compromise agreement, reached after four years of tough bargaining, calls for liberalisation of trade in agricultural goods and slashing import duties on a large number of industrial items by an overall average of 35 per cent. Countries joining the United States in making the first one-fifth cut today include Canada, Australia, New Zealand, Austria and Switzerland. A second group of countries including Britain, the European Common Market nations, Japan and the Scandinavian countries, will begin to put the agreement into effect with a two-fifths cut on July 1. The Western industrialised countries expect the Kennedy Round cuts to open up new trading opportunities and stiffen international competition in world markets.

INDUSTRIAL COMMITTEE ON BANKING

The union government has appointed a 16-member industrial committee on the banking industry under the chairmanship of the union Minister for Labour and Employment. The committee will consist of representatives from the central and state governments and organisations of employers and employees. There are already 14 other industrial committees on different industries like cement, coal mining, cotton textiles, rubber plantations, iron and steel and engineering industry.

NATIONAL DEFENCE FUND

Contributions to the National Defence Fund up to December 30, 1967, amounted to Rs 30.56 crores. Of this, Rs 16.93

January 12, 1968

crores were contributed from September 1, 1965, and Rs 1.16 crores represent the value of gold and silver taken to government stock and credited to the National Defence Fund. Contributions up to December 30, 1967, in the form of gold ornaments and jewellery amounted to 24.74 lakh grammes, and in the form of silver articles and jewellery to 15.65 lakh grammes.

SUGAR WAGE BOARD RECOMMENDATIONS

The Government of India has accepted certain interim recommendations of the second Central Wage Board for the Sugar Industry concerning the age of retirement and annual increments. It has been recommended that the moratorium on retirement by superannuation, which was due for expiry on December 31, 1967, will continue till the final recommendations of the board. According to this, the employees who had reached the age of 58 and were due for retirement on December 31, 1967, will not retire. But for employees who have reached the age of 60, the moratorium will be lifted from January 1, 1968. As regards dearness allowance, the board has recommended that it should be payable from July 1 every year instead of October 1. Under the earlier arrangements, the dearness allowance is calculated at the average of 12 months ending June 30 and is payable from the next October 1. Workers had urged and is payable from the next October 1. Workers had urged that under this arrangement, they lose the benefit of additional dearness allowance for three months, i.e., July, August and September.

DEBARI ZINC SMELTER

Regular production of zinc has begun in India's first public sector zinc smelter at Debari in Udaipur district of Rajasthan. The main unit of the smelter was commissioned in the first week of October last year and trial production started in November when 20 tonnes of zinc metal sheets were produced in a day. Regular production has begun now with 40 tonnes of zinc metal turned out daily. The plant is to obtain two important by-products—cadmium and sulphuric acid. The acid will be utilised for manufacture of superphosphate fertilizer.

FISH MEAL UNIT WITH G.D.R. HELP

The Kerala Fisheries Corporation has signed with the German Democratic Republic an agreement to set up a Rs 15-lakh fish meal plant at Cochin. The machinery worth Rs 5 lakhs for the plant, which is expected to go into production in one year, will be supplied by the GDR.

CHEAPER TRANSISTOR RADIOS

Rohat Electronics Limited (BEL) has reduced the price of its germanium transistors, used for transistor radios, by 18 per cent. This will mean that a pack of five transistors and a diode, used in a set, will cost Rs 3 less. With this reduction, it is expected that quality transistor radio sets would soon be available within the price range of Rs 75-85. The BEL plans to produce 12 million germanium transistors during 1968 for supply to the radio industry. This production will be further increased next year. Silicon transistors, which are of a later development, would also become available from the BEL to radio manufacturers by October this year. It is estimated that the production capacity of radio receivers has to be increased from the present 1.6 million a year to about four million a year, in the next three to four years, to reach the objective of one radio set for every 20 persons.

COMMERCIAL BROADCAST EXTENSION

Commercial broadcasts from AIR would be extended to the whole of India within the next three months, it was disclosed recently by Mr K. K. Shah, union Minister for Information

and Broadcasting. Commercial broadcasting on AIR was introduced for the first time on November 1 last as a pilot project and is now confined to the Bombay, Nagpur and Poona stations.

NEWSPRINT FACTORY IN KERALA

A newsprint factory with a capacity of 150 tonnes per day is proposed to be established in Kerala in the public sector. The raw material for this factory would be either eucalyptus or rubber wood. The total requirement of newsprint in India is estimated at 500 tonnes a day. The country is spending about Rs 13 to 14 crores on importing newsprint every year.

AIRPORT ENTRY FEE

Entry into the airports of Madras, Bombay and Calcutta would be on payment of Re 1 from April next. Meanwhile, the levy of fee fixed at 50 paise earlier has been raised to Re 1 at Palam with effect from January 1, 1968.

RUMANIA'S TWENTIETH ANNIVERSARY

Rumania celebrated last month the 20th anniversary of its republic. At a press conference held in New Delhi on this occasion, the Rumanian Ambassador, Mr Aurel Ardeleanu, said that his country would like to co-operate with India not only in the development of her oil and petrochemical industries, but also in the development of her agriculture. He further added that his country would like to help India to establish a factory for the manufacture of equipment for oil drilling. Part of the equipment could be exported to other countries. Asked whether his country could help India to set up fertilizer factories, the Ambassador said that there were possibilities of co-operation in this field. To develop Indian agriculture his country was already supplying fertilizers. For the supply of equipment his country would accept payment in kind by the purchase of Indian goods.

FAMILY PLANNING

Over 30 lakh sterilization operations had been performed in the country up to the middle of November. The maximum number of operations have been performed in Madras state (578,633), Maharashtra being second with 423,487, followed by UP (267,333), Madhya Pradesh (263,000), Orissa (190,000), Kerala (188,000), Gujarat (186,000) and Delhi 29,000. About two million loops have been inserted so far, while 6.4 million have been distributed to states and union territories. The Kanpur loop factory now produces 30,000 loops per day. Meanwhile, the union Health Ministry has undertaken a number of pilot projects in oral contraception on experimental-cum-demonstrational basis in different parts of the country.

PREMIUM PRIZE BONDS

Premium prize bonds of Rs 5 and Rs 100 denominations, issued during 1963, which have become due for repayment, can be encashed at the offices of the Reserve Bank, head post offices, departmental sub-post offices and non-banking treasuries and sub-treasuries. They can also be invested in post office savings bank accounts.

D.A. FOR CENTRAL EMPLOYEES

Central government employees have been allowed an enhanced dearness allowance (the third in 1967) following the twelve-monthly average of the All-India Working Class Consumer Price Index Number having crossed 205 in October, 1967. The increase is payable in cash and ranges from Rs 6 to Rs 10 per month for salaries below Rs 450. For pay ranges between Rs 450-499, which were not eligible for any increase during the last two occasions, the benefit, however, is Rs 33 per month.

Company Affairs

PARRYS CONFECTIONERY

MR H. V. R. IENGAR, Chairman, Parrys Confectionery Ltd, stated at the annual general meeting held recently that the net profit for the year ended September 30, 1967, touched a figure of Rs 27.29 lakhs, which was higher than last year's profit by Rs 10 lakhs. There was a record sale during the year associated with a higher level of production as compared to the previous year. The improved performance was also partly due to a reduction in loss on exports. After providing Rs 18.50 lakhs for taxation, the net profit was Rs 8.79 lakhs as against Rs 5.72 lakhs last year. The company transferred Rs 1.42 lakhs towards development rebate reserve and Rs 5.04 lakhs for dividend. A sum of Rs 2.30 lakhs was transferred to general reserve. The chairman pointed out that record sales were achieved in spite of various difficulties in obtaining adequate supplies of raw materials. Moreover, the company had to buy raw materials at prohibitive prices from established importers. Even sugar was not available regularly and the company had to review the prices of finished products keeping in view the consumer resistance. The chairman also pointed out that the recent purchase of sugar in the open market at nearly three times the controlled price will cause an increase in the price of sweets sold by the company to nearly Rs 11 a kilogram as against Rs 7.50 in 1966. He hoped that the conditions will be stabilised soon. Mr Iengar indicated that the withdrawal of cash incentive and reduced import entitlement following the devaluation hampered the exports of the company. Even the re-introduction of incentives was totally inadequate, consequently the company had to curtail its exports considerably.

ASSOCIATED BATTERY

Associated Battery Makers (Eastern) Ltd, the Indian manufacturing company of Britain's Chloride group, has received the government's approval to build a second battery factory. The new factory will be located in Poona district and is scheduled to start making Exide and other well-known brands of automotive batteries early in 1969.

Local consulting engineers will be responsible for the design and construction of the factory in association with Chloride Overseas Ltd, the group's technical support organisation. Chloride Overseas will also assist in the supply and commissioning of the manufacturing machinery and provide the necessary technical assistance to the Indian company to bring the new factory into production.

An important factor in helping Chloride to gain approval for a second factory in India was the impressive export record of the existing plant in West Bengal. Expansion of manufacturing facilities at this factory continues and the product range includes batteries for automotive, stationary and industrial use, train lighting, diesel locomotive starting, miners' cap lamps, aircraft and military transport.

ASHOK LEYLAND

Encouraging working results have been reported by Ashok Leyland Ltd during the year ended September 30, 1967. Sales went up from Rs 21.15 crores to Rs 27.68 crores, while gross profit was significantly higher at Rs 259.93 lakhs as compared with Rs 192.61 lakhs in 1965-66. A sum of Rs 63.47 lakhs was provided for depreciation during the year under review as against Rs 56.15 lakhs in the preceding year, while the appropriation to development rebate reserve was stepped up by Rs 27.45 lakhs to Rs 37.30 lakhs. Taxation absorbed Rs 68 lakhs as compared with Rs 62.50 lakhs in the previous year. The net profit, after making these provisions, amounted to Rs 91.16 lakhs as against Rs 64.11 lakhs in 1965-66. The entire net profit of Rs 91.16 lakhs was transferred to general reserve. The directors have recommended an equity dividend of eight per cent on the increased capital for the year as against nine per cent de-

clared for 1965-66. A sum of Rs 60.13 lakhs will be required for distribution and it will be paid out of the general reserve.

The directors point out that due to general recession, the demand for commercial vehicles, particularly for heavy duty vehicles, was lower during the year. The after-effects of devaluation and rising prices of raw materials and components also affected the company's production and profits. Though the factory was geared for a production of 5,000 Comets, the production had to be considerably reduced owing to the fall in demand. Similarly the number of heavy duty vehicles, the production of which was expected to reach 600 units, had to be considerably reduced because of the postponement of many projects in the public and private sectors.

Despite these difficulties, the company is going ahead with its expansion programmes. It is planning to raise the indigenous content of heavy duty vehicles to 70 per cent. For this purpose, plant and machinery have been installed and commissioned. Additional machinery will also be erected and plans are afoot to import in the course of next two years all the machinery required for completing the programme. Arrangements are being made for getting the required funds from financial institutions.

CUTLER-HAMMER

Cutler-Hammer India Ltd has announced a new line of air break motor starters. Initially direct-on-line, automatic star-delta and reversing starters are being offered. These are available in standard ratings of 5, 10, 15, 30 and 40 H.P. The starters incorporate eutectic alloy thermal overload relay, which gives a positive signal when it trips due to overloading. The relay is manually re-setting type. Contacts are made of silver/silver cadmium oxide alloy, and can be inspected quickly. Large-sized push buttons are rectangular in shape and have legends engraved on them. Terminals have been designed to accept aluminium wires. Enclosures can be padlocked if required. The company can also supply open type starters mounted on sheet steel plates.

J.K. RAYON

J. K. Rayon will soon be offering for public subscription 25,000 cumulative redeemable preference shares of Rs 100 each at par. The shares will be carrying an interest of 10 per cent per annum. The amount will be payable in full on application.

The company has an authorised capital of Rs 5 crores and an issued capital of Rs 1.75 crores, consisting of Rs 1.25 crores in equity shares, Rs 5 lakhs in 4.5 per cent tax-free cumulative preference shares, Rs 6 lakhs in 6.5 per cent tax-free cumulative preference shares and Rs 39 lakhs in 6.5 per cent tax-free cumulative redeemable preference shares. The paid-up capital of the company amounts to Rs 142.87 lakhs.

The proceeds of the present issue will be utilised to finance partly the television project to be set up in technical collaboration with the Central Electronic Research Institute, Pilani, for manufacturing 10,000 television sets per annum with progressive expansion from year to year. The factory will be located at Kanpur. The capital outlay on the project is estimated at about Rs 48 lakhs and it will be financed by the present preference issue of Rs 25 lakhs and loans from directors and bank borrowings of Rs 23 lakhs. When the project goes into full production, the annual turnover is expected to be of the order of Rs 2 crores.

J.K. STEEL

The directors of J.K. Steel Ltd have recommended the payment of a dividend of 10 per cent for the year ended June, 1967, on the increased equity capital of Rs 60 lakhs being equiva-

lent to the 15 per cent dividend declared on the old capital last year. The results for the year under review are fairly encouraging, in spite of a general recession in the engineering industry. The turnover touched a new peak at Rs 310 lakhs against Rs 250 lakhs last year. The gross profit has been maintained at Rs 35.02 lakhs against Rs 35.91 lakhs in the previous year. Higher interest charges due to devaluation and an increase in excise and other government levies reduced the margins. A sum of Rs 9.91 lakhs has been provided for depreciation against Rs 6.91 lakhs in the previous years. Development rebate reserve amounts to Rs 1.01 lakhs while a sum of Rs 7.60 lakhs has been set aside for taxation. A sum of Rs 9.92 lakhs has been transferred to general reserve No. 1 against Rs 6 lakhs in the previous year. The company has made steady progress in export but the continuous rise in the cost of production is impeding its power to compete in the foreign markets.

AUTOMOBILE PRODUCTS

Automobile Products of India Ltd recorded a turnover of Rs 335.2 lakhs during the year ended July 31, 1967. It sold 12,650 vehicles (scooters and three wheelers etc.) during the year as against 9,570 vehicles in the previous year. The indigenous content was around 92 per cent. The company decided to manufacture flywheel magnetos with the assistance of Deucati Elettrotecnica Microfarad of Italy, production of which will commence in the current year and will raise the indigenous content to 95 per cent. During 1966-67 the company exported 24 scooters to Iraq. The government has not yet taken any decision on the company's application for increasing its installed capacity. However, it has asked the company to produce the maximum number of scooters and three-wheelers possibly by working multiple shifts. The company expects to raise the production to 2,000 units per month before the end of the current year. It also has plans to modernise and balance its equipment and proposes to apply for a loan of Rs 50 lakhs

from the IFC, including a foreign exchange loan of Rs 20 lakhs for machinery. Sales of clutches and clutch parts amounted to Rs 148.35 lakhs during the year. Turnover in the brakes division amounted to Rs 102.82 lakhs and in the friction materials division Rs 43.68 lakhs. In the current year it expects to start manufacture of clutch facings. Due to foreign exchange difficulties, the company has been asked to procure the few components for its Lambrettas from its collaborators again on deferred payment basis. It has also been issued IDA licences for its other divisions. The company has thus enough licences and expects to secure more licences to maintain its programme for the current year.

DALMIA CEMENT

Dalmia Cement (Bharat) Ltd, proposes to take over Raza Buland Sugar Co. Ltd by making it a subsidiary of the company. The directors have decided to offer two ordinary shares of Rs 10 each of Dalmia Cement in lieu of every five fully paid equity shares of Rs 10 each of Raza Buland. The new ordinary shares of the company will rank pari passu with the existing ordinary shares excepting that the dividend for 1967 will not be payable on the new shares. The proposal will be considered at an extraordinary meeting of the company by the end of the month.

UNIT TRUST

The sale price of a unit of the Unit Trust of India has been raised by five paise from Rs 10.35 to Rs 10.40. The re-purchase price of the unit remains unchanged at Rs 10.

LICENCES AND LETTERS OF INTENT

The following licences and letters of intent were issued under the Industries (Development & Regulation Act, 1951) during the week ended October 28, 1967. The list contains the names and addresses of the licensees, articles of manufacture, type of licences—New Article (N.A.); New Undertaking (N.U.);

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LICENCES ISSUED

Paints & Varnishes

M/s Jaipur Metals & Electricals Ltd, Near Railway Station, Jaipur. (Jaipur, Rajasthan): Polyvinyl formal & Polyurethane enamels—240 tonnes. (N.A.); M/s Indo-American Electricals Ltd, 21, Old Court House Street, Calcutta-1. (Calcutta, West Bengal): Polyvinyl & Formal and Polyurethane Enamels—300 tonnes. (N.A.).

Insecticides & Fungicides

M/s Indofil Chemicals Ltd, Ticcicon House, Dr. E. Moses Road, Bombay-11 (BC) (Kolshet, Thana, Maharashtra): Kelthane (Miticide)—200 tonnes. (N.A.); M/s Tata Chemicals Ltd, Bombay House, Bruce Street, Fort, Bombay-1. (Mithapur, Okhamandal (Western Railway), Gujarat): B. H. C. (Technical): Existing—5,100 tonnes—7,200 tonnes after expansion. (S.E.).

Drugs and Pharmaceuticals

M/s Hoechst Pharmaceuticals Ltd, Dugal House, Backbay Reclamation, Bombay-1. (Bombay, Maharashtra): Heperoes Dragees—40,00,000 dragees. (N.A.); M/s Thermio Pharmaceuticals, 38, Suren Road, Andheri (East), Bombay-58. (Bombay, Maharashtra): Pyrazinamide Tablets 0.5 gm.—120 lakh tablets Intra-muscular iron injections 1ml/50 gm. (iron sorbitolcitrate complex)—9,60,000 ampules; Neomycin and Bacitracin: Ointment—3 gm. pack; Ointment—15 gm. pack; Sprinkling power—10 gm.—7,20,000 tubes; Chlorprothixene tablets 15 mg.—120 lakh tablets; Amitriptylene tablets 25 mg.—120 lakh tablets. (N.A.).

Cotton Textiles

M/s Bhupendra Kumar Navnitlal & Co. Behind Alcock Cement Pipe Factory, Gomtipur, Ahmedabad-21. (Ahmedabad, Gujarat): Cotton tapes: 61-Powerlooms for the manufacture of 2,52,000 Rolls. (N.U.).

Sugar

M/s Shree Madhi Vibhag Khand Udyog Sahakari Mandli Ltd, Dist. Surat, Gujarat State (Sureli Village near Mandi, Dt. Surat, Gujarat State): Installed crushing capacity—1250 tonnes of sugarcane per day. (N.U.); M/s Shri Keshoraipatan Sahakari Sugar Mills Ltd, C/o The Registrar Co-operative Societies, Rajasthan, Jaipur. (Keshoraipatan, Distt. Bundi, Rajasthan State): Installed crushing capacity—1250 tonnes of sugarcane per day. (N.U.)

Milk Foods

M/s Kaira District Co-operative Milk Producers' Union Ltd, Anand (Gujarat State) (Anand, Gujarat State): Cheese—500 tonnes after expansion. (S.E.).

Flour

M/s Brahmaputra Flour Mills, Noonmati, Gauhati-20. (Assam) (Noonmati, Assam): Wheat Products—12,000 tonnes. (C.O.B.).

Timber Products

M/s Texwell Private Ltd, 28, Barrackpore Trunk Road, Calcutta-2. (Calcutta, West Bengal): Shuttles for automatic Cop. Changers for Jute looms and automatic Jute looms—48,000 pieces. (S.E.).

LETTERS OF INTENT

Industrial Machinery

M/s Associated Cement Companies Ltd, "Cement House", 121, Queen's Road, Bombay-1. (Shahabad, Mysore): Complete Pelletising Plant—12,000 tonnes. (N.A.).

LICENCES REVOKED OR SURRENDERED

(Information pertains to particular licences only)

M/s Telepole Manufacturing Co. Ltd, New Delhi—Telescopic Tubular Poles; M/s Devidayal Electroment Ltd, Bombay—Manganese Metal and Manganese Dioxide; M/s Central India Machinery Manufacturing Co. Ltd, Birlanagar—Universal-cylindrical Grinders; M/s The Motipur Sugar Factory Private Ltd, P.O. Motipur, Distt. Muzaffarpur—Sugar.

COMPANY NOTICES

BHARAT SUGAR MILLS LIMITED

NOTICE

NOTICE is hereby given that the thirty-sixth Annual General Meeting of Bharat Sugar Mills Ltd will be held on Wednesday, the 31st January, 1968 at 3 P.M. at 15, India Exchange Place, Calcutta for the following purposes:—

1. To receive and consider the Report of the Directors and to adopt the Audited Accounts of the Company for the year ended 30th June, 1967.
2. To declare dividends.
3. To elect a Director in place of Shri R. K. Bhuwalka who retires by rotation and being eligible offers himself for re-election.

4. To appoint Auditors and fix their remuneration.

AS SPECIAL BUSINESS:

5. To consider and if thought fit to pass with or without modification the following resolution as Special Resolution:

"Resolved that apart from the transactions of loans exempted under the provisions of Section 370 of the Companies Act, 1956, the Company be and is hereby authorised to make any loan to any other body corporate up to 30% of the Company's subscribed capital and free reserves in case of bodies corporate not under the same management and 20% of the Company's subscribed capital and free reserves in case of bodies corporate under the same management".

By Order of the Board,

14, Radha Bazar Lane,
Calcutta, the 4th January, 1968.

S. N. GUPTA,
Secretary

- Notes: 1. A member entitled to attend and vote is entitled to appoint a proxy to attend and vote instead of himself and the proxy need not be a member.
2. Shareholders are requested to notify any change of address failing which the dividend warrants will be posted to their addresses as registered with the Company.
3. The Register of Members of the Company will remain closed from the 24th January, 1968 to the 31st January, 1968 both days inclusive.
4. The dividends when declared will be payable to the registered shareholders as on the 31st January, 1968 or to their mandatees on or after the 20th February, 1968.

Explanatory statement has been forwarded to the shareholders.

THE CALCUTTA ELECTRIC SUPPLY CORPORATION LIMITED

(Incorporated in England)

Notice is hereby given that the Board of Directors of this Company have declared payment of an Interim Dividend on the Company's Ordinary Stock at the rate of £4 1/2 per cent net (tax applicable at 8s. 3d. in the £) for the year ending 31st March, 1968. Payment will be made on 15th February, 1968, to those stockholders whose names are registered in the Company's Stock Register on 29th January, 1968.

Applications for transfers received in this Office before 12 O'Clock noon on Monday, the 29th January, 1968, will, if otherwise satisfactory, be registered at that date for the purpose of participation in the above Dividend.

By Order of the Board,

Victoria House,
Calcutta, 4th January, 1968.

D. P. M. KANGA
Agent

RECORDS AND STATISTICS

The Banking Laws (Amendment) Bill

IN THE last session of Parliament was introduced the Banking Laws (Amendment) Bill, 1967, to amend further the Banking Regulation Act, 1949, so as to provide for the extension of social control over banks. The bill has also recommended amendments to the Reserve Bank of India Act, 1934, and the State Bank of India Act, 1955.

In the statement of objects and reasons (which has been circulated along with the bill) Mr Morarji Desai said: "The more important new provisions of the bill connected with the management of the banks relate to the reconstitution of their boards of directors and appointment of full-time chairmen. Every banking company will have to reconstitute its board of directors so that the majority of persons on the board have special knowledge or practical experience in agriculture, rural economy, small-scale industries, co-operation, banking, finance and other matters which are useful to a banking company and should not have substantial interest or active association with large or medium-sized industrial or business undertakings. The chairman of each bank will be required to be a professional banker and a full-time chief executive officer. It will be open to the Reserve Bank to reconstitute the board of directors or to appoint a new chairman if it proves to be necessary. There will be a statutory prohibition on the grant of any type of loans and advances to directors and the concerns in which they are interested. The scope of the Reserve Bank's power to issue directions to a banking company is also proposed to be widened to cover matters having a bearing on monetary stability, sound economic growth and the equitable allocation and efficient use of its resources. Power is also proposed to be taken by the central government for the acquisition of the business of a banking company if it becomes a persistent defaulter in complying with the requirements of the law or directions issued thereunder."

The text of the bill follows:

Be it enacted by Parliament in the Eighteenth Year of the Republic of India as follows:—

CHAPTER I

Preliminary

1. (1) This Act may be called the Banking Laws (Amendment) Act, 1967.

(2) It shall come into force on such date as the central government may, by notification in the official gazette, appoint and different dates may be appointed for different provisions of the Act

CHAPTER II

Amendments to the Banking Regulation Act, 1949

2. In the Banking Regulation Act, 1949 (hereinafter in this Chapter referred to as the principal Act), in section 5,—

(i) after clause (c), the following clause shall be inserted, namely:—

"(ca) "banking policy" means any policy which is specified from time to time by the Reserve Bank in the interests of the depositors or of the banking system or 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";

(ii) after clause (g), the following clause shall be inserted, namely:—

"(gg) "managing agent" includes,—

(i) secretaries and treasurers.

(ii) where the managing agent is a company, any director of such company, and any member thereof who holds substantial interest in such company,

(iii) where the managing agent is a firm, any partner of such firm";

(iii) after clause (n), the following clauses shall be inserted, namely:—

"(na) "small-scale industrial concern" means an industrial concern in which the investment in plant and machinery is not in excess of seven and a half lakhs of rupees or such higher amount, not exceeding fifteen lakhs of rupees, as the central government may, by notification in the official gazette, specify in this behalf, having regard to the trends in industrial development and other relevant factors;

(nb) "subsidiary bank" has the meaning assigned to it in the State Bank of India (Subsidiary Banks) Act, 1959;

(nc) "substantial interest"—

(i) in relation to a company, means the holding of a beneficial interest by an individual or his spouse or minor child, whether singly or taken together, in the shares thereof, the amount paid-up on which exceeds five lakhs of rupees or five per cent of the paid-up capital of the company, whichever is less;

(ii) in relation to a firm, means the beneficial interest held therein by an individual or his spouse or minor child, whether singly or taken together, which represents more than five per cent of the total capital subscribed by all the partners of the said firm;

3. After section 10 of the principal Act, the following sections shall be inserted, namely:—

"10A. (1) Notwithstanding anything contained in any other law for the time being in force, every banking company,—

(a) in existence on the commencement of section 3 of the Banking Laws (Amendment) Act, 1967, or

(b) which comes into existence thereafter, shall comply with the requirements of this section:

Provided that nothing contained in this sub-section shall apply to a banking company referred to in clause (a) for a period of three months from such commencement.

(2) Not less than 51 per cent of the total number of members of the board of directors of a banking company shall consist of persons, who—

(a) shall have special knowledge or practical experience in respect of one or more of the following matters, namely:—

(i) accountancy, (ii) agriculture and rural economy, (iii) banking, (iv) co-operation, (v) economics, (vi) finance, (vii) law, (viii) small-scale industry, (ix) any other matter the knowledge and experience in which would, in the opinion of the Reserve Bank, be useful to the banking company;

Provided that out of the aforesaid number of directors, not less than two shall be persons having special knowledge or practical experience in respect of agriculture and rural economy, co-operation or small-scale industry; and

(b) shall not—

(1) have substantial interest in, or be connected

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substituted;

(ii) for the words "a director or, as the case may be," the words "a chairman or, as the case may be, a director" shall be substituted;

(d) in sub-section (6), for the words "the director", the words "the chairman or director" shall be substituted;

(e) in sub-section (7), for the words "director or chief executive officer", wherever they occur, the words "chairman, director or chief executive officer" shall be substituted.

14. In section 36AB of the principal Act, in sub-section (1), for the words "opinion that", the words "opinion that in the interest of banking policy or in the public interest or" shall be substituted.

15. After Part IIA of the principal Act, the following Parts shall be inserted, namely:—

'PART' IIB

Prohibition of certain activities in relation to banking companies

36AD. (1) No person shall—

(a) obstruct any person from entering any office or place of business of a banking company or from carrying on any business there, or

(b) hold any demonstration (including shouting any slogan) which is indecent or which amounts to the commission, or incitement to the commission, of any offence, within the precincts of, or inside, any building in which the office or place of business of any banking company is situated or within ten metres from any entrance to or exit from such building, or

(c) act in any manner calculated to undermine the creditworthiness of any banking company.

(2) Whoever contravenes any provision of sub-section (1) without any reasonable excuse shall be punishable with imprisonment for a term which may extend to six months, or with fine which may extend to one thousand rupees, or with both.

(3) No court shall take cognizance of any offence punishable under sub-section (2) except on a complaint in writing made to it by the Reserve Bank or by any person authorised by it in this behalf.

(4) For the purposes of this section, "banking company" includes the Reserve Bank, the Industrial Development Bank of India, the State Bank of India, and any subsidiary bank.

PART IIC

Acquisition of the undertakings of banking companies in certain cases

36AE. (1) If, upon receipt of a report from the Reserve Bank, the central government is satisfied that a banking company—

(a) has persistently failed to comply with the directions given to it under section 21, section 35 or section 35A, or

(b) is being managed in a manner detrimental to the interests of its depositors, and that—

(i) in the interests of the depositors of such banking company, or

(ii) in the interest of banking policy, or

(iii) for the better provision of credit generally or of credit to any particular section of the community or in any particular area,

it is necessary to acquire the undertaking of such banking company, the central government may, after such consultation with the Reserve Bank as it thinks fit, by notified order, acquire the undertaking of such company (hereinafter referred to as the acquired bank) with effect from such date as may be specified in this behalf by the central government (hereinafter referred to as the appointed day):

Provided that no undertaking of any banking company shall be so acquired unless such banking company has been given a reasonable opportunity of showing cause against the proposed action

Explanation.— In this Part,—

(a) "notified order" means an order published in the official gazette;

(b) "undertaking", in relation to a banking company incorporated outside India, means the undertaking of the company in India.

(2) Subject to the other provisions contained in this Part, on the appointed day, the undertaking of the acquired bank and all the assets and liabilities of the acquired bank shall stand transferred to, and vest in, the central government.

(3) The undertaking of the acquired bank and its assets and liabilities shall be deemed to include all rights, powers, authorities and privileges and all property, whether movable or immovable, including, in particular, cash balances, reserve funds, investments, deposits and all other interests and rights in, or arising out of, such property as may be in the possession of, or held by, the acquired bank immediately before the appointed day and all books, accounts and documents relating thereto, and shall also be deemed to include all debts, liabilities and obligations, of whatever kind, then existing of the acquired bank.

(4) Notwithstanding anything contained in sub-section (2), the central government may, if it is satisfied that the undertaking of the acquired bank and its assets and liabilities should, instead of vesting in the central government, or continuing to so vest, vest in a company established under any scheme made under this Part or in any corporation (hereinafter in this Part and in the Fifth Schedule referred to as the transferee bank) that government, may, by order, direct that the said undertaking, including the assets and liabilities thereof, shall vest in the transferee bank either on the publication of the notified order or on such other date as may be specified in this behalf by the central government.

(5) Where the undertaking of the acquired bank and the assets and liabilities thereof vest in the transferee bank under sub-section (4), the transferee bank, shall, on and from the date of such vesting, be deemed to have become the transferee of the acquired bank and all the rights and liabilities in relation to the acquired bank shall, on and from the date of such vesting, be deemed to have been the rights and liabilities of the transferee bank.

(6) Unless otherwise, expressly provided by or under this Part, all contracts, deeds, bonds, agreements, powers of attorney, grants of legal representation and other instruments of whatever nature subsisting or having effect immediately before the appointed day and to which the acquired bank is a party or which are in favour of the acquired bank shall be of as full force and effect against or in favour of the central government, or as the case may be of the transferee bank, and may be enforced or acted upon as fully and effectively as if in the place of the acquired bank the central government or the transferee bank had been a party thereto or as if they had been issued in favour of the central government or the transferee bank, as the case may be.

(7) If on the appointed day, any suit, appeal or other proceeding of whatever nature is pending by or against the acquired bank, the same shall not abate, be discontinued or be, in any way, prejudicially affected by reason of the undertaking of the acquired bank or of anything contained in this Part, but the suit, appeal or other proceeding may be continued, prosecuted and enforced by or against the central government or the transferee bank, as the case may be.

36AF. (1) The central government may, after consultation with the Reserve Bank, make a scheme for carrying out the purposes of this Part in relation to any acquired bank.

(2) In particular, and without prejudice to the generality of the foregoing power, the said scheme may provide for

all or any of the following matters, namely:—

(a) the corporation or the company incorporated for the purpose, to which the undertaking including the property, assets and liabilities of the required bank may be transferred and the capital, constitution, name and office thereof;

(b) the constitution of the first board of management (by whatever name called) of the transferee bank, and all such matters in connection therewith or incidental thereto as the central government may consider to be necessary or expedient;

(c) the continuance of the services of all the employees of the acquired bank (excepting such of them as, not being workmen within the meaning of the Industrial Disputes Act, 1947, are specifically mentioned in the scheme) in the central government or in the transferee bank, as the case may be, on the same terms and conditions so far as may be, as are specified in clauses (i) and (j) of sub-section (5) of section 45;

(d) the continuance of the right of any person who, on the appointed day is entitled to or is in receipt of, a pension or other superannuation or compassionate allowance or benefit from the acquired bank or any provident, pension or other fund or any authority administering such fund to be paid by, and to receive from, the central government or the transferee bank, as the case may be, or any provident, pension or other fund or any authority administering such fund, the same pension, allowance or benefit so long as he observes the conditions on which the pension, allowance or benefit was granted, and if any question arises whether he has so observed such conditions, the question shall be determined by the central government and the decision of the central government thereon shall be final;

(e) the manner of payment to the shareholders of the acquired bank in full satisfaction of their claim of the compensation payable in accordance with the provisions of this Part;

(f) the provision, if any, for completing the effectual transfer to the central government or the transferee bank of any asset or any liability which forms part of the undertaking of the acquired bank in any country outside India;

(g) such incidental, consequential and supplemental matters as may be necessary to secure that the transfer of the business, property, assets and liabilities of the acquired bank to the central government or transferee bank, as the case may be, is effectual and complete.

(3) The central government may, after consultation with the Reserve Bank, by notification in the official gazette, add to, amend or vary any scheme made under this section.

(4) Every scheme made under this section shall be published in the official gazette.

(5) Copies of every scheme made under this section shall be laid before each House of Parliament as soon as may be after it is made.

(6) The provisions of this Part and of any scheme and thereunder shall have effect notwithstanding anything to the contrary contained in any other provisions of this Act or in any other law or any agreement, award or other instrument for the time being in force.

(7) Every scheme made under this section shall be binding on the central government or, as the case may be, on the transferee bank and also on all members, creditors, depositors and employees of the acquired bank and of the transferee bank and on any other person having any right, liability, power or function in relation to, or in connection with, the acquired bank or the transferee bank, as the case may be.

36AG. (1) Every person who, immediately before the appointed day, is registered as a holder of shares in the acquired bank shall be given by the central government, or the transferee bank, as the case may be, such compen-

sation in respect of the transfer of the undertaking of the acquired bank as is determined in accordance with the principles contained in the Fifth Schedule.

(2) Nothing contained in sub-section (1) shall affect the rights inter se between the holder of any share in the acquired bank and any other person who may have any interest in such shares and such other person shall be entitled to enforce his interest against the compensation awarded to the holder of such share, but not against the central government, or the transferee bank.

(3) The amount of compensation to be given in accordance with the principles contained in the Fifth Schedule shall be determined in the first instance by the central government, or the transferee bank, as the case may be, in consultation with the Reserve Bank, and shall be offered by it to all those to whom compensation is payable under sub-section (1) in full satisfaction thereof.

(4) If the amount of compensation offered in terms of sub-section (3) is not acceptable to any shareholder of the acquired bank, such shareholder may, before such date as may be notified by the central government in the official gazette, request the central government in writing, to have the matter referred to the tribunal constituted under section 36AH.

(5) If, before the date notified under sub-section (4), the central government receives requests, in terms of that sub-section, from not less than one-fourth of number from the shareholders holding not less than one-fourth in value of the paid-up share capital of the acquired bank, the central government shall have the matter referred to the tribunal for decision.

(6) If, before the date notified under sub-section (4), the central government does not receive requests as provided in that sub-section, the amount of compensation offered under sub-section (3), and where a reference has been made to the tribunal, the amount determined by it, shall be the compensation payable under sub-section (1) and shall be final and binding on all parties concerned.

36AH. (1) The central government may, for the purpose of this Part, constitute a tribunal which shall consist of a chairman and two other members.

(2) The chairman shall be a person who is, or has been, a judge of a high court or of the Supreme Court, and, of the two other members, one shall be a person, who, in the opinion of the central government, has had experience of commercial banking and the other shall be a person who is a chartered accountant within the meaning of the Chartered Accountants' Act, 1949.

(3) If for any reason a vacancy occurs in the office of the chairman or any other member of the tribunal, the central government may fill the vacancy by appointing another person thereto in accordance with the provisions of sub-section (2), and any proceeding may be continued before the tribunal, so constituted, from the stage at which the vacancy occurred.

(4) The tribunal may, for the purpose of determining any compensation payable under this Part, choose one or more persons having special knowledge or experience of any relevant matter to assist it in the determination of such compensation.

36AI. (1) The tribunal shall have the powers of a civil court, while trying a suit, under the Code of Civil Procedure, 1908, in respect of the following matters, namely:—

(a) summoning and enforcing the attendance of any person and examining him on oath;

(b) requiring the discovery and production of documents;

(c) receiving evidence on affidavits;

(d) issuing commissions for the examination of witnesses or documents.

(2) Notwithstanding anything contained in sub-section (1), or in any other law for the time being in force, the tribunal shall not compel the central government or the

Reserve Bank,—

(a) to produce any books, of account or other documents which the central government, or the Reserve Bank, claims to be of a confidential nature;

(b) to make any such books or documents part of the record of the proceedings before the tribunal; or

(c) to give inspection of any such books or documents to any party before it or to any other person.

36AJ. (1) The tribunal shall have power to regulate its own procedure.

(2) The tribunal may hold the whole or any part of its inquiry in camera.

(3) Any clerical or arithmetical error in any order of the tribunal or any error arising therein from any accidental slip or omission may, at any time, be corrected by the tribunal either of its own motion or on the application of any of the parties.

16. Section 39 of the principal Act shall be re-numbered as sub-section (1) thereof and after sub-section (1), as so re-numbered, the following sub-section shall be, and shall be deemed always to have been, inserted, namely:—

“(2) Subject to such directions as may be made by the high court, the remuneration of the official liquidator appointed under this section, the cost and expenses of his establishment and the cost and expenses of the winding up shall be met out of the assets of the banking company which is being wound up, and notwithstanding anything to the contrary contained in any other law for the time being in force, no fees shall be payable to the central government, out of the assets of the banking company.”

17. After section 47 of the principal Act, the following section shall be inserted, namely:—

“47A. (1) Notwithstanding anything contained in section 46, if a contravention or default of the nature referred to in sub-section (3) or sub-section (4) of section 46, as the case may be, is made by a banking company, then, the Reserve Bank may impose on such banking company—

(a) where the contravention is of the nature referred to in sub-section (3) of section 46, a penalty not exceeding twice the amount of the deposits in respect of which such contravention was made;

(b) where the contravention or default is of the nature referred to in sub-section (4) of section 46, a penalty not exceeding two thousand rupees; and where such contravention or default is a continuing one, a further penalty which may extend to one hundred rupees for every day, after the first during which the contravention or default continues.

(2) For the purpose of adjudging the penalty under sub-section (1), the Reserve Bank shall hold an inquiry in the prescribed manner after giving the banking company a reasonable opportunity of being heard.

(3) While holding an inquiry under this section, the Reserve Bank shall have power to summon and enforce the attendance of any person to give evidence or to produce any document or any other thing which, in the opinion of the Reserve Bank, may be useful for, or relevant to, the subject matter of the inquiry.

(4) No complaint shall be filed against any banking company in any court of law in respect of any contravention or default in respect of which any penalty has been imposed by the Reserve Bank under this section.

(5) Any penalty imposed by the Reserve Bank under this section shall be payable within a period of fourteen days from the date on which notice issued by the Reserve Bank demanding payment of the sum is served on the banking company and in the event of failure of the banking company to pay the sum within such period, may be levied on a direction made by the principal civil court having jurisdiction in the area where the registered office of the banking company is situated; or, in the case of a banking company incorporated outside India, where its principal place of business in India is situated:

Provided that no such direction shall be made except upon an application made to the court by the Reserve Bank or any officer authorised by that Bank in this behalf.

(6) The court which makes a direction under sub-section (5) shall issue a certificate specifying the sum payable by the banking company and every such certificate shall be enforceable in the same manner as if it were a decree made by a court in a civil suit.

(7) Where any complaint has been filed against any banking company in any court in respect of the contravention or default of the nature referred to in sub-section (3) or, as the case may be, sub-section (4) of section 46, then, no proceedings for the imposition of any penalty on the banking company shall be taken under this section.

18. In section 51 of the principal Act,—

(a) in clause (c) of the proviso, after the words and figures “in section 46”, the words, figures and letter “or in section 47A” shall be inserted;

(b) the Explanation shall be omitted.

19. In section 52 of the principal Act, in the proviso to sub-section (3) after the words “this section”, the brackets, words, figures and letters “(including the rules made for the first time on matters specified in sections 10A and 47A)” shall be inserted.

20. After section 55 of the principal Act, the following section shall be inserted, namely:—

“55A. If any difficulty arises in giving effect to the provisions of this Act, the central government may, by order, as occasion requires, do anything (not inconsistent with the provisions of this Act) which appears to it to be necessary for the purpose of removing the difficulty:

Provided that no such power shall be exercised after the expiry of a period of three years from the commencement of section 20 of the Banking Laws (Amendment) Act, 1967.

21. In Part V, in the provisions of the principal Act, as applied to or in relation to co-operative societies,—

(a) in section 5A, as substituted by clause (d) of section 56 of the principal Act,—

(i) in sub-section (1), for the words “this Part”, the words “this Act” shall be substituted;

(ii) in sub-section (2), for the words “this Part”, the words “this Act” shall be substituted;

(b) in section 7, as substituted by clause (f) of the said section 56, in sub-section (2), after clause (b), the following clause shall be inserted, namely:—

“(c) any co-operative society, not being a primary credit society, formed by the employees of a banking company or the State Bank of India or any other banking institution notified by the central government under section 51 or the employees of a subsidiary of such banking company or the State Bank of India or, as the case may be, such banking institution”;

(c) in clause (g) of the said section 56, for the word and figures “section 10”, the words, figures and letters “sections 10, 10A, 10B, 10C and 10D” shall be substituted;

(d) in section 18 of the principal Act, as substituted by clause (j) of the said section 56, in the Explanation, for clause (c), the following clause shall be substituted, namely:—

“(c) in the case of a state or central co-operative bank, also any deposit of money with it representing the reserve fund or any part thereof required to be maintained with it by any other co-operative society within its area of operation, and in the case of a central co-operative bank, also an advance taken by it from the state co-operative bank of the state concerned”;

(e) for clause (l) of the said section 56, the following clause shall be substituted, namely:—

“(l) for section 20 of the principal Act, the following section shall be substituted, namely:—

20. (1) No co-operative bank shall—

(a) make any loans or advances on the security of its own shares; or

(b) grant unsecured loans or advances—

- (i) to any of its directors, or
- (ii) to firms or private companies in which any of its directors is interested as partner or managing agent or guarantor or to individuals in cases where any of its directors is a guarantor; or
- (iii) to any company in which the chairman of the board of directors of the co-operative bank (where the appointment of a chairman is for a fixed term) is interested as its managing agent, or where there is no managing agent, as its chairman or managing director;

Provided that nothing in clause (b) shall apply to the grant of unsecured loans or advances—

(a) made by a co-operative bank—

(i) against bills for supplies or services made or rendered to government or bills of exchange arising out of bona fide commercial or trade transactions, or

(ii) in respect whereof trust-receipts are furnished to the co-operative bank;

(b) made by a primary co-operative bank to any of its directors or to any other person within such limits and on such terms and conditions as may be approved by the Reserve Bank in this behalf.

(2) Every co-operative bank shall, before the close of the month succeeding that to which the return relates, submit to the Reserve Bank a return in the prescribed form and manner showing all unsecured loans and advances granted by it to companies in cases [other than those in which the co-operative bank is prohibited under sub-section (1) to make unsecured loans and advances] in which any of its directors is interested as director or managing agent or guarantor.

(3) If on examination of any return submitted under sub-section (2), it appears to the Reserve Bank that any loans or advances referred to in that sub-section are being granted to the detriment of the interests of the depositors of the co-operative bank, the Reserve Bank may, by order in writing, prohibit the co-operative bank from granting any such further loans or advances or impose such restrictions on the grant thereof as it thinks fit, and may by like order direct the co-operative bank to secure the re-payment of such loan or advance within such time as may be specified in the order."

(f) in sub-section (2) of section 22, as substituted by clause (o) of the said section 56, for the proviso, the following proviso shall be substituted, namely:—

"Provided that nothing in clause (b) of sub-section (1) shall be deemed to prohibit—

(i) a co-operative society carrying on business as a co-operative bank at the commencement of the Banking Laws (Application to Co-operative Societies) Act, 1965, or

(ii) a co-operative bank which has come into existence as a result of the division of any other co-operative society, or the amalgamation of other co-operative societies carrying on business in either case as a co-operative bank or banks at such commencement, or

(iii) a primary credit society which becomes a primary co-operative bank after such commencement, from carrying on banking business until it is granted a licence in pursuance of this section or is, by a notice in writing, notified by the Reserve Bank that the licence cannot be granted to it."

(g) in sub-section (1) of section 23, as substituted by clause (p) of the said section 56, in clause (b) of the proviso, for the words "opening of branches": the words "opening or changing the location of branches" shall be substituted;

(h) in sub-section (2A) of section 24, as substituted by clause (q) of the said section 56, for clause (b), the

following clause shall be substituted, namely:—

"(b) In computing the amount for the purpose of clause (a),—

(i) any cash or balances maintained in India by a co-operative bank, other than a scheduled state co-operative bank, with itself or in current account with the Reserve Bank or the State Bank of India or with any other bank which may be notified in this behalf by the central government; and also any balances maintained with the state co-operative bank of the state concerned, and, in the case of a primary co-operative bank, also any balances maintained with the central co-operative bank of the district concerned or with the state co-operative bank of the state concerned in excess of the aggregate of the cash or balances or both required to be maintained under section 18; and

(ii) any balance maintained by a scheduled state co-operative bank with the Reserve Bank in excess of the balance required to be maintained by it under section 42 of the Reserve Bank of India Act, 1934, and any balances in current account maintained in India by a scheduled state co-operative bank with the State Bank of India or with any other bank which may be notified by the central government,

shall be deemed to be cash maintained in India.

Explanation.—For the purposes of this sub-section,—

(a) approved securities, or a portion thereof, representing investment of Agricultural Credit Stabilization Fund of a co-operative bank shall not be deemed to be unencumbered approved securities;

(b) balance with the state co-operative bank of the state concerned or with the central co-operative bank of the district concerned, or a portion thereof, representing investment of Agricultural Credit Stabilization Fund of a co-operative bank shall not be deemed to be cash maintained in India;

(c) in case a co-operative bank has taken an advance against any balance maintained with the State Bank of India or with any other bank which may be notified in this behalf by the central government or with the state co-operative bank of the state concerned or with the central co-operative bank of the district concerned, such balance to the extent to which it has been drawn against or availed of shall not be deemed to be cash maintained in India."

(i) in the proviso to sub-section (1) of section 35, as inserted by clause (w) of the said section 56, the following shall be added at the end, namely:—

"and may, if it considers it necessary and expedient so to do, supply a copy of the said report to the state co-operative bank or the registrar of co-operative societies of the state in which the inspected bank is registered";

(j) in clause (zb) of the said section 56, after the word, figures and letter "Part IIA", the word, figures and letter, "Part IIC," shall be inserted."

22. After the Fourth Schedule of the principal Act, the following Schedule shall be inserted, namely:—

THE FIFTH SCHEDULE (See section 36AG)

Principles of compensation

1. The compensation to be given under section 36AG shall be an amount equal to the value of the assets of the acquired bank as on the day immediately before the appointed day, computed in accordance with the provisions of Part I of this Schedule less the total amount of liabilities thereof computed in accordance with the provisions of Part II of this Schedule.

Part I.—Assets

For the purposes of this Part "assets" means the total of the following:—

(a) the amount of cash in hand and with the Reserve Bank and the State Bank of India (including ...)

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Reserves ...	Over 4 Crores
Deposits ...	Over 200 Crores
Account-holders ...	Over 6 lakhs
Employees ...	Over 7000
Shareholders ...	Over 6000



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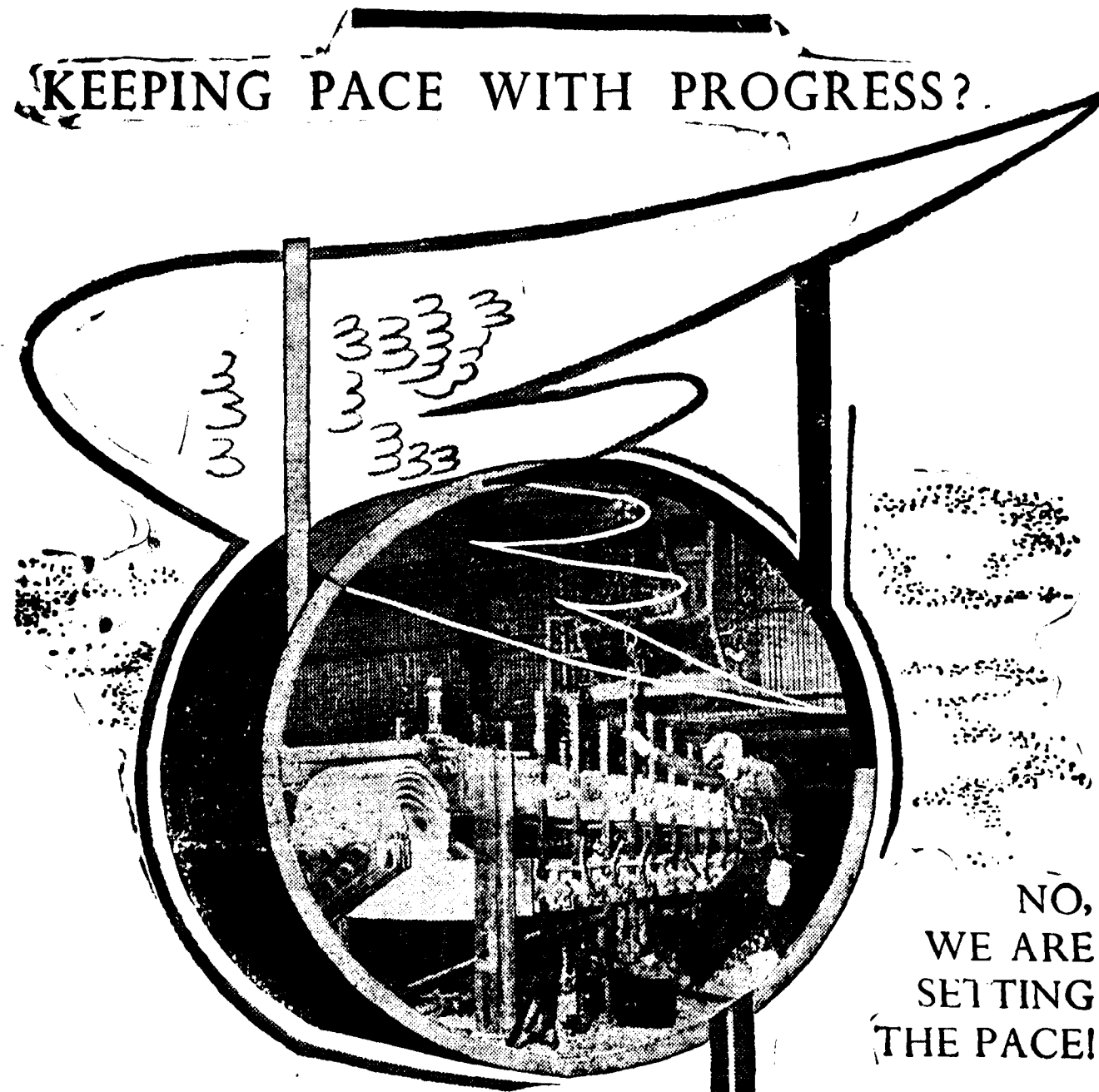
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currency notes which shall be converted at the market rate of exchange);

(b) the amount of balances with any bank, whether on deposit or current account, and money at call and short, notice, balances held outside India being converted at the market rate of exchange;

Provided that any balances which are not realisable in full shall be deemed to be debts and valued accordingly;

(c) the market value, of any securities, shares, debentures, bonds and other investments, held by the bank concerned.

Explanation.—For the purposes of this clause,—

(i) securities of the central and state governments [other than the securities specified in sub-clauses (ii) and (iii) of this Explanation] maturing for redemption within five years from the appointed day shall be valued at the face value or the market value, whichever is higher;

(ii) securities of the central government, such as Post office certificates and treasury savings deposit certificates and any other securities or certificates issued or to be issued under the small savings scheme of the central government, shall be valued at their face value or the encashable value of the market value, whichever is higher;

(iii) where the market value of any government security such as the zamindari abolition bonds or other similar security in respect of which the principal is payable in instalments, is not ascertainable or is, for any reason, not considered as reflecting the fair value thereof or as otherwise appropriate, the security shall be valued at such an amount as is considered reasonable having regard to the instalments of principal and interest remaining to be paid, the period during which such instalments are payable, the yield of any security, issued by the government to which the security pertains and having the same or approximately the same maturity, and other relevant factors;

(iv) where the market value of any security, share, debenture, bond or other investment is not considered reasonable by reason of its having been affected by abnormal factors, the investment may be valued on the basis of its average market value over any reasonable period;

(v) where the market value of any security, share, debenture, bond or other investment is not ascertainable, only such value, if any, shall be taken into account as is considered reasonable having regard to the financial position of the issuing concern, the dividend paid by it during the preceding five years and other relevant factors;

(d) the amount of advances (including loans, cash credits, overdrafts, bills purchased and discounted), and other debts, whether secured or unsecured, to the extent to which they are reasonably considered recoverable, having regard to the value of the security, if any, the operations on the account, the reported worth and respectability of the borrower, the prospects of realisation and other relevant considerations;

(e) the value of any land or buildings;

(f) the total amount of the premium paid, in respect of all leasehold properties, reduced in the case of each such premium by an amount which bears to such premium the same proportion as the expired term of the lease in respect of which such premium shall have been paid bears to the total term of the lease;

(g) the written down value as per books, or the realisable value, as may be considered reasonable, of all furniture, fixtures and fittings;

(h) the market or realisable value, as may be appropriate, of other assets appearing on the books of the bank,

no value being allowed for capitalised expenses, such as share selling commission, organisational expenses and brokerage, losses incurred and similar other items;

Part II.—Liabilities

For the purposes of this Part "liabilities" means the total amount of all outside liabilities existing on the appointed day, and all contingent liabilities which the central government or the transferee bank may reasonably be expected to be required to meet out of its own resources on or after the appointed day.

2. If the acquired bank is not incorporated in India, the assets or, as the case may be, the liabilities of the bank shall be, for the purposes of the Part I and Part II, and subject to the other provisions therein, the assets and liabilities of the offices of the bank situated in India.

Compensation payable to shareholders

3. Every shareholder of the acquired bank shall be given such amount as compensation as bears to the total compensation calculated in accordance with the provisions of paragraph 1 the same proportion as the amount of paid-up capital of the shares held by the shareholder bears to the total paid-up capital of the acquired bank.

Certain dividends not to be taken into account

4. No separate compensation shall be payable for any profits or any dividend in respect of any period immediately preceding the appointed day, for which, in the ordinary course, profits would have been transferred or dividend declared after the appointed day.

CHAPTER III

Amendments to the Reserve Bank of India Act, 1934

23. In the Reserve Bank of India Act, 1934 (hereinafter in this Chapter referred to as the principal Act), in section 2,—

(a) to clause (cii), the following proviso shall be added, namely:—

"Provided that this sub-clause shall not apply to the admission of a co-operative bank as a member by reason of such co-operative bank subscribing to the share capital of such co-operative society out of funds provided by the state government for the purpose."

(b) to clause (ciii), the following proviso shall be added, namely:—

"Provided that this sub-clause shall not apply to the admission of a co-operative bank as a member by reason of such co-operative bank subscribing to the share capital of such co-operative society out of funds provided by the state government for the purpose."

(c) to clause (civ), the following proviso shall be added, namely:—

"Provided that this sub-clause shall not apply to the admission of a co-operative bank as a member by reason of such co-operative bank subscribing to the share capital of such co-operative society out of funds provided by the state government for the purpose."

24. In section 17 of the principal Act, in the proviso to clause (3A),—

(a) for sub-clause (b) of clause (i), of the following sub-clause shall be substituted namely:—

"(b) maturing not later than 180 days from the date of the loan or advance, and

it will, so long as any part of such loans and advances remains unpaid, continue to hold such bills of exchange of a value not less than the amount of such loans of advances outstanding for the time being; or";

(b) for clause (ii), the following clause shall be substituted, namely:—

"(ii) it has granted a pre-shipment loan or advance to an exporter or any other person in India in order to enable him to export goods from India, the amount of

the loan or advance drawn and outstanding at any time being not less than the outstanding amount of the loan or advance obtained by the borrowing bank from the bank."

25. For section 24 of the principal Act, the following section shall be substituted, namely:—

"24. (1) Subject to the provisions of sub-section (2), bank notes shall be of the denominational values of two rupees, five rupees, ten rupees, twenty rupees, fifty rupees, one hundred rupees, five hundred rupees, one thousand rupees, five thousand rupees and ten thousand rupees or of such other denominational values, not exceeding ten thousand rupees, as the central government may, on the recommendation of the central board, specify in this behalf.

(2) The central government may, on the recommendation of the central board, direct the non-issue or the discontinuance of issue of bank notes of such denominational values as it may specify in this behalf."

26. In section 33 of the principal Act, in sub-section (4), for the figures and word "2.88 grains", the figures and word "0.118489 grammes", and for the words "at the market rate", the words "at rates not exceeding the market rates" shall be substituted.

27. In section 451 of the principal Act, to clause (c), the following Explanation shall be added, namely:—

"Explanation.—For the removal of doubts, it is hereby declared that a company registered under section 3 of the Insurance Act, 1938, for any class of insurance business and a company, not being a banking company, a corporation or a firm, carrying on, as its principal business, the management, conduct or supervision as the foreman or agent of any transaction or arrangement by which it enters into an agreement with a number of subscribers that every one of them shall subscribe a certain sum by instalments for a definite period and that each subscriber in his turn as determined by lot or by action or by tender or in such other manner as provided for in the agreement shall be entitled to a prize amount shall be deemed to be, a financial institution as defined in this clause."

28. After section 54A of the principal Act, the following section shall be inserted, namely:—

"54AA. (1) The bank may, notwithstanding anything contained in any law for the time being in force or in any contract, depute any member of its staff for such period as it may think fit to any institution which is either wholly or substantially owned by the Bank, and thereupon the person so deputed shall, during the period of his deputation, render such service to the institution as that institution may require.

(2) Where a person has been deputed to an institution under sub-section (1), he shall not be entitled to claim any salary, emoluments and other terms and conditions of service which he would not have been entitled to claim if he had not been so deputed.

(3) Nothing contained in this section shall empower the bank to depute any member of its staff to any institution on any salary, emoluments or other terms and conditions which is or are less favourable to him than that or those to which he is entitled immediately before such deputation.

(4) For the purposes of this section, an institution shall be deemed to be substantially owned by the bank if in the capital of the institution the bank has not less than 40 per cent, share.

Explanation.—The word "capital" means, in relation to the Unit Trust, the initial capital of that Trust."

CHAPTER IV

Amendments to the State Bank of India Act, 1955

29. In the State Bank of India Act, 1955 (hereinafter in this Chapter referred to as the principal Act), in section 33.—

(a) in sub-clause (f) of clause (i), for the words "goods which are hypothecated", the words "goods or other assets which are hypothecated or assigned" shall be substituted;

(b) in clause (xviii), for the words "six months", the words "twelve months" shall be substituted;

(c) in clause (xixb).—

(i) for the words "the advancing or lending of money to", the words "the advancing or lending of money to, or discounting or purchase of any negotiable instrument on behalf of," shall be substituted;

(ii) for the words "in excess of six months", the words "in excess of twelve months" shall be substituted;

(d) in clause (xixc), for the words "six months", the words "twelve months" shall be substituted.

30. In section 34 of the principal Act,—

(a) in clause (a) of sub-section (1), for the words "six months", the words "twelve months" shall be substituted;

(b) in sub-section (3), for sub-clause (ii) of clause (b), the following sub-clause shall be substituted, namely:—

"(ii) save as otherwise provided in this Act, 12 months from the date aforesaid if the instrument or security is drawn or issued for any other purpose."

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Social Control Over Commercial Banks

THE DEPUTY Prime Minister and Minister for Finance, Mr Morarji Desai, made a detailed statement in Parliament on December 14, 1967, in regard to the implications of social control over commercial banks. The text of his statement is reproduced below:

With your permission, Sir, I wish to make a statement outlining the major steps that the government have decided upon to implement the decision to have effective social control over banks. A good deal of concern has been expressed in recent months in this House and elsewhere about the functioning of commercial banks in the context of our economic and social objectives. Our fundamental aim, within the framework of democratic socialism, is to regulate our social and economic life so as to attain the optimum growth rate for our economy and to prevent at the same time any monopolistic trend, concentration of economic power and misdirection of resources. The banking system is an important intermediary through which the savings of the community are channelled and is a key constituent of our economic life. We are all agreed that its policies and practices must serve the basic social and economic objectives. It is in this context that government took on hand an examination of the functioning of the banks with a view to taking such steps as might be necessary to achieve social control over banks. We had kept an open mind on this issue and examined the various alternatives, including nationalisation, and have decided upon a set of measures which would fulfil the objective in the most effective manner.

I think it would be appropriate before detailing the measures to analyse what is at the root of the public concern over the way the banks function. There have been persistent complaints that several priority sectors such as agriculture, small-scale industries and exports have not been receiving their due share of bank credit and that the bulk of the bank advances are diverted to industry, particularly to large and medium-scale industries and big and established business houses. It is a fact that over the years a greater proportion of additional resources accruing to the banking system has gone to industry, but it has to be borne in mind that banks supply primarily their working capital requirements; and once an industrial unit has come into being, it would have been a waste of national resources, in an underdeveloped economy like ours where capital is so scarce, to deny it working capital requirements and stifle its growth. Nevertheless, the importance of sectors like agriculture, small-scale industries and export cannot be overlooked, particularly from the point of view of national income generation, provision of employment opportunities, decentralisation of economic power and earning of foreign exchange. This underlines the need for ensuring credit to all productive sectors of the economy within the framework of our planned economy.

Crux of the Problem

This is the crux of the problem. The demand for bank credit from all productive sectors has been growing apace and will continue to increase further, both in range and depth, but bank deposits have been growing at a slower pace. The level of savings in our country, because of the poverty of the population, is low. While long-term measures are needed to stimulate a larger volume of savings and attract them to the banking system, it is important to ensure, in the immediate future, an equitable and purposeful distribution of credit, within the resources available, keeping in view the relative priorities of developmental needs.

It is against this background that doubts have been expressed whether the banking system, as is at present owned, constituted and controlled, can be relied upon to discharge this responsibility. Historically, the banks in our country have been started by industrial and business houses and they have close traditional links with them. The boards of directors

mainly consist of industrialists and businessmen; small-scale industries, agriculture and other sectors of our economic life have hardly any influence in the overall credit decisions taken by the banks. A good proportion of advances is given to directors and the concerns in which they are interested. It is the government considered opinion—and I am sure the House will endorse this—that the link between a few industrial houses and banks has to be snapped or at least made ineffective, the exclusive orientation of the banks towards industry and business has to be changed, and the credit decision by the bank management must be made to conform to the priorities of our economic development.

It is in this context that many honourable Members have supported the idea of nationalisation of banks. It has been argued that the necessary orientation in the banks' pattern of lending and investment cannot be brought about except through public ownership. As I have been explaining, the basic issues which require attention are to evolve appropriate guidelines for the bank management and to ensure their implementation by orienting their decision-making process. It is the government's considered opinion that mere acquisition of banks would severely strain the administrative resources of the government while leaving the basic issues untouched. What is of prime importance is to ensure that particular clients or groups of clients are not favoured in the matter of distribution of credit and whatever the character of the shareholding, its influence is neutralised in the constitution of the board of directors, and in the actual credit decision taken at different levels of bank management. The social control scheme, as conceived and formulated, is built on this basic postulate.

National Credit Council

As I have already explained, the first major requirement is to assess periodically the demand for bank credit and indicate the priorities for lending and investment between all sectors of the economy that require credit, in particular the priority sectors such as agriculture, small-scale industries and export. For this purpose, it has been decided to set up a high-level body at the all-India level, to be called the National Credit Council consisting of the representatives from large, medium and small-scale industries, agriculture, co-operative sector, trade and bankers and professional groups such as economists, chartered accountants, etc. The Minister of Finance will be the Chairman and Governor of the Reserve Bank the Vice-Chairman. The council will be a compact deliberative body and its deliberations, particularly because of the association of different interest groups will help the government and Reserve Bank in taking appropriate decisions on budgeting and planning of overall credit. A government resolution laying down the composition, terms of reference and other allied matters will be laid on the table of the House shortly.

It has, however, to be ensured that the decisions on monetary and credit policy formulated by the Reserve Bank, in the light of the deliberations of the council, are implemented by the commercial banks. I shall be introducing in Parliament within the next few days a bill for conferring additional statutory powers on the Reserve Bank. The powers which have been conferred in the past from time to time on the Reserve Bank have been primarily conditioned by the objective of protecting the depositors' interest. The new powers which are now proposed to be conferred on the Reserve Bank are more positive and purposeful. I would prefer to confine myself only to the important provisions as honourable Members would have adequate opportunity of discussing the various provisions of the bill when they are taken up for consideration and I would welcome at that stage any constructive suggestions which they would have occasions to make after studying the bill.

The bill provides for a major change in the management of a commercial bank. Each bank will have a full-time chairman

who will be a professional banker and not an industrialist. The Reserve Bank will have the power to appoint its own nominee as chairman if the bank's nominee is not acceptable to it and will also have the power to remove him, if the Reserve Bank considers it necessary. The board of directors of banks will be reconstituted and the majority of directors of the reconstituted boards will be non-industrialists and persons from sectors such as agriculture, small-scale industries, co-operative and other persons whose knowledge and experience will be useful to the banking company. The Reserve Bank will have the power to appoint a director or observer on the board of commercial bank. In the initial stages, these powers will be exercised only in the major banks with deposits of over Rs 25 crores and gradually over a period of time, these will be extended to all banks.

Another important provision of the law will be to prohibit all advances or guarantees to directors and the concerns in which they are interested as directors, partners, managers, employees or managing agents or substantial shareholders. No person or group of persons would, therefore, be able, by reason of their being on the board of directors of the bank, to get any loan for themselves or their concerns. Honourable members have expressed genuine concern on more than one occasion, that directors of the banks exercise undue influence on bank managements in getting loans for themselves and their concerns. I am sure that this statutory prohibition will go a long way towards eliminating the influence of any dominant group or persons in getting loans for themselves or their concerns. I understand that there is in some banks the practice of setting up local or advisory committees which scrutinize loan applications and make recommendations to the board. I should like to make it clear that it is our intention that borrowers of a bank should not be represented even on such a local or advisory committee of the bank. This will be taken care of by the issue of a directive by the Reserve Bank.

Foreign Banks

Honourable Members would be interested to know how our scheme of social control would apply in relation to foreign banks. These banks are incorporated outside India and their affairs in India are looked after by a chief executive who is a professional banker in their employ. The provision regarding whole-time chairman and reconstitution of existing board of directors would not apply in their case. However, each foreign bank would be expected to set up an advisory board consisting of Indians and following more or less the same pattern as that prescribed for Indian banks. They would be expected to conduct their lending policies and practices in the light of the guidance of the advisory boards. I have had discussions with some foreign bankers and they have readily agreed to fall in line with our wishes in this regard. Further details are being discussed by them with the Governor of the Reserve Bank.

I have no doubt that the measures outlined above will achieve the object in view. I do not, however, rule out recalcitrance on the part of an individual bank. If there is a persistent default by an individual bank in complying with the provisions of law or directives issued thereunder or if it is felt that for the better provision of banking facilities to particular sectors or particular areas, it is necessary to acquire the business of a particular institution, government would not hesitate to do so. Suitable provision in this regard is being made in the forthcoming bill.

I am confident that with better budgeting and planning of credit through the establishment of the National Credit Council and more effective institutional control over the decision-making apparatus of the banks the objective of social control would be realised. I would, however, like to utter a word of caution. The change in the orientation of the lending policies of the banks has to be a gradual process. Too sudden a change may disorganize the delicate economic mechanism. One should not therefore expect a miracle overnight.

This covers the short-term measures which I have in mind to achieve reorientation of the outlook of the banking system. I would now come back to what I mentioned earlier. It is the



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inadequate level of savings which is a matter of serious concern. All efforts have to be made to mobilise deposits from rural and semi-urban areas whose potentialities are yet to be fully tapped. It is no doubt true that the commercial banks and particularly the State Bank of India and its subsidiaries have been carrying out a programme of branch expansion in rural and semi-urban areas. More vigorous efforts are, however, needed in this direction. Perhaps, the long-term objective should be the development of the banking system on lines of regional banks which would be not only in a better position to mobilise deposits in rural and semi-urban areas but will also be in a better position to assess and meet the needs of the small entrepreneurs and the agriculturists in these areas. Such a development cannot, however, take place in the short term and the advantages and disadvantages of a change in the structure of the banking system have to be carefully weighed. There are other areas which require attention. Operational efficiency of the banking system has to be improved and their working methods and procedures have to be modernised. I propose to set up a commission to have a close look at these and other related matters which affect the development of the banking industry on right lines. The terms of reference of the commission, its composition and allied matters are being

New Policy on General Insurance

WHILE REJECTING the nationalisation of general insurance business in this country, Mr Morarji Desai, Deputy Prime Minister and Minister for Finance, stated in Parliament on December 22, 1967, that a number of measures would be taken by the government to develop it on sound and healthy lines. The measures suggested by him amount to social control of general insurance business. The text of his statement is given below:

I wish to make a statement outlining the major steps that government has decided upon in regard to social control over general insurance.

In answer to a question in this as well as in the other House I had stated that government had undertaken a detailed examination of the proposal for nationalisation of general insurance in all its aspects, including the possibility of achieving the objectives in other ways. The examination has since been completed and the proposed measures are a result of this examination.

The objectives to be aimed at in general insurance are of a somewhat different character from those which I had set out the other day in relation to banks. The funds available for investment with general insurance companies are modest and amount in the case of Indian insurers, to only about Rs 50 crores apart from another Rs 10 crores already invested in government securities. The annual increase is of the order of Rs 5 crores. This is in contrast to life insurance where the investments are about Rs 1,000 crores and the increase annually is over Rs 100 crores. The profits in general insurance after tax are now only about Rs 3 to 4 crores, and if the premium structure is rationalised, would be even more modest. In other words, the resources available from general insurance are of such a minor nature that issues like utilisation of these resources for planned development, and appropriate policies for this purpose hardly arise.

The objectives which we seek to secure in this field are that the premium rates should be fair, that there should be complete security to policy-holders, that insurance companies should not be owned by individuals and their funds utilised to further private interests and lastly that the industry should function on sound and healthy lines and free from malpractices. The examination by government has shown that these objectives can effectively be secured by regulation and control over insurance companies. These measures would require amendments to the Insurance Act 1938, which regulates the working of insurance companies in the country and will there-

worked out and will be announced soon.

There is also the need for improving the technical expertise of the banking executives and instilling a sense of independence and integrity in the banking profession. To this end I am considering the setting up of a training institute at the highest level and a working group has been appointed to go into this matter and to make recommendations.

The Indian banking system has attained stability and strength over the last 15 years. Of the developing countries, we are indeed fortunate enough to have a fairly well-developed capital and money market, and for all its existing shortcomings and weaknesses, the banking system, as an integral part of the money market, has given a good account of itself. But its orientation and outlook have to be changed and it has to function as an effective vehicle for the implementation of the monetary and credit policy of the Reserve Bank, whose primary purpose is to realise, with support from other areas of fiscal, industrial and economic policy, the broad economic and social objective inherent in our ideal of democratic socialism. I am confident that the implementation of the measures I have outlined will lead to a positive reorganisation of the banking system on sound lines and enable it to fulfil the role that is required of it.

fore require legislation. I shall indicate briefly the more important measures which we propose to adopt.

A fair premium rate is the essence of service to policy-holders. This is particularly important in general insurance where the policy-holders are not paid back through any bonus system and excess in premiums paid by them. At present the premiums are being regulated by the tariff committee, a statutory body consisting of members elected by the insurers themselves. It is proposed to reconstitute that body with the Controller of Insurance as its chairman, giving him overriding powers in case of difference of opinion between him and the trade in regard to the actual rate to be charged.

Security to policy-holders is sought to be achieved by making it obligatory on insurers to build up strength. Even now under a "code of conduct" framed by the insurers themselves and being complied with voluntarily, the insurers are required to maintain at all times a 'solvency margin', that is to say, their assets must exceed their liabilities by a specified amount. It is proposed to give statutory recognition to this principle. The solvency margin proposed is 20 per cent of the net premium income of the insurer concerned or Rs 20 lakhs, whichever is higher.

Statutory Deposit

The statutory deposit which is Rs 350,000 for an insurer registered for all the three classes of general insurance business will be increased to Rs 20 lakhs and this deposit will be required to be made even if the insurer is registered for only one class of insurance business or two.

The solvency margin as well as the statutory deposit will however be only Rs one lakh for insurers carrying on marine insurance relating exclusively to country craft or its cargo. At the moment, they are required to make a deposit of Rs 10,000 only.

The provisions regarding 'solvency margin' which will be finding a place in the statute book for the first time as well as provisions regarding increased deposits would ensure that the companies build up strength and not fritter away their resources. Insurers who individually lack the necessary strength would be given the facility to pool their resources by resort to group working. A group need comply with the provisions for solvency margin and deposit only as a single unit, but this does not mean any decrease in the security for policy-holders because in group working every member of the group will be liable only for his share of the risk on each policy.

Unlike in the case of life insurance and banks, concentration of economic power is not a problem in general insurance

as the funds are small. The reason, of course, is that contracts in general insurance are for short periods usually a year and therefore do not entail accumulation of funds. However, it has been considered desirable that the investment of even these small funds should be regulated. Therefore the provisions of Section 27-A of the Insurance Act, which requires that investments of life funds should be made only in "approved investments" that is to say investments which satisfy certain criteria of soundness, should be applied to investments of general insurance funds also with suitable modifications. As in Section 27-A, limits will also be placed on the maximum investments in the shares of individual companies.

Likewise the provisions of the Insurance Act relating to maximum holdings and voting rights of shareholders which were hitherto applicable only to life insurance, would now be made applicable to general insurance companies also. In terms of this proposal, any holdings in excess of 10 per cent of the shares will have to be disposed of and voting rights would be limited to five per cent of the total.

These two provisions would ensure that there is no 'interlocking' between general insurance companies and other joint stock companies and that general insurance funds are invested well and not utilised to further the private interests of the manager or of any group of private individuals.

The last of the major objectives I mentioned earlier is that the industry should function on sound and healthy lines and free from malpractices. Some of the proposals I have outlined earlier, namely increased deposits and requirement of a solvency margin, would ensure that only financially strong units remain in the field. The control over the premium rates would also have a very healthy effect on the tone of the market as, in the ultimate analysis, malpractices, to whatever extent they may be present can arise only because there is a margin between the actuarial premium and the premium actually charged.

As a further measure for achieving this objective, the Controller of Insurance will be clothed with greater powers

of supervision and control over insurers. The more important of the proposed provisions are: (1) The controller will be required to make regular inspections of insurers and, in addition, have the right to make surprise inspections, and, if necessary, to enter premises and search and seize records. If the inspection reveals unsatisfactory features the government can order the cancellation of the registration of the insurer. (2) Appointment or removal of principal officers of insurers would need the prior approval of the controller. (3) The controller will be empowered to appoint, as a routine measure, directors on the board of insurers or to appoint observers. (4) With a view to conserving foreign exchange, the controller will be given the power to scrutinise the terms of reinsurance contracts and ask for the termination of such contracts at the earlier legal opportunity if he considers it necessary in the public interest.

Notwithstanding all these provisions, there may be insurers who may continue to be weak or whose working is unsatisfactory. It is therefore proposed to empower the controller to bring about the amalgamation of insurers where he feels that such a step is in the public interest or in the interest of policy-holders or shareholders or in the interest of the insurance business of the country as a whole. The scheme proposed will be placed before government who will be empowered to approve it finally. Similarly, where the insurer has been persistently failing to comply with the directions given to him by the controller or is being managed in a manner detrimental to the interests of the policy-holders or shareholders or in the public interest, the government may by notification acquire the insurer and pay compensation. Provision for an appeal to a tribunal will be provided where an insurer feels that the compensation is inadequate.

I propose to introduce a bill in the next session of Parliament to give effect to these measures.

With these measures, we can, I hope, look forward to the development of general insurance in India on sound and healthy lines.

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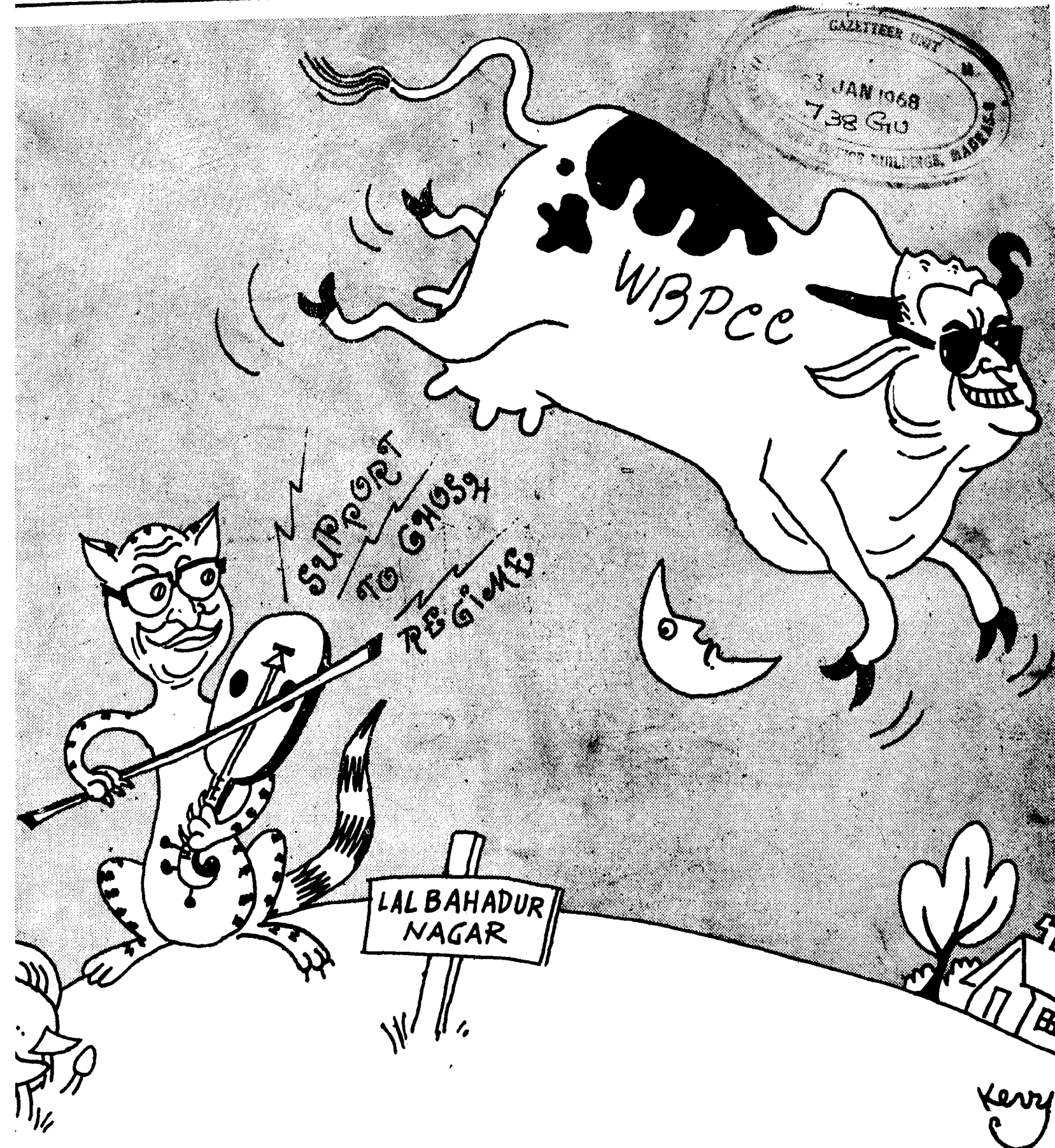
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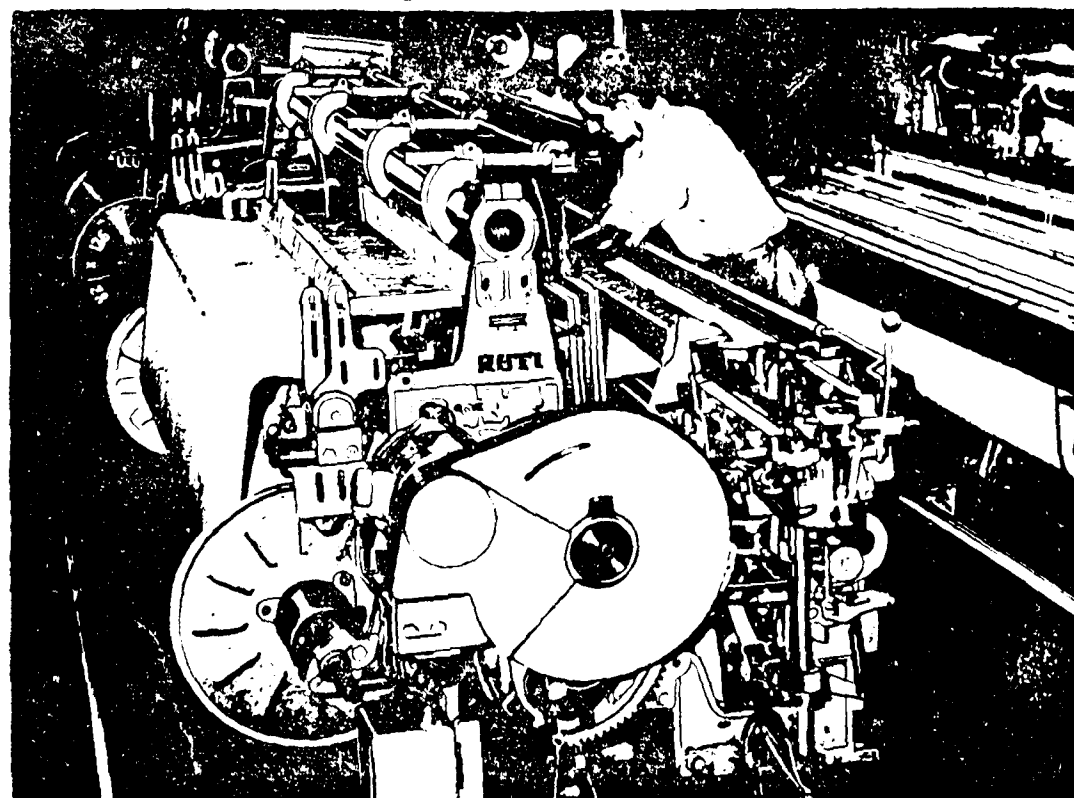
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No Time for "Masterly" Inactivity

THE DEPUTY Prime Minister displayed a characteristic strength of will and certain amount of clear-headedness when he successfully resisted attempts made at the Congress session at Lal Bahadur Nagar to have the government's economic policy debated through a resolution. The fact that the Prime Minister himself had not been unsympathetic to this abortive move only emphasized the reassuring extent to which Mr Morarji Desai had been able to assert his position as the economic policy-maker for the government. The question is whether in his capacity as Finance Minister he will be able to put to positive and constructive use the authority that is now so obviously his. Here, unfortunately, the indications are not too encouraging. The statement he made at the Congress session giving his views on the present condition of the nation's economy and the nature of its needs presents the picture of a man who, while undoubtedly well-intentioned, is not only vague about the direction in which he must move but is also unsure of the ground on which he stands.

Mr Desai, in fact, gave the impression of a minister who would feign leave the responsibilities of his portfolio to the benevolent care of Nature, if not God. He advanced the extraordinary and, considering his office, the irresponsible thesis that, until there was a succession of good harvests, nothing much could really be done to assist the economy to resume its growth. In our view, mental attitudes of this kind come perilously close to an abdication of the government's obligations relating to the economic well-being of the country, an abdication which would be all the more objectionable in view of the fact that, over the last several years, the government had been steadily arrogating to itself vast powers of direction and dictation over the economic affairs of the people. It is surely neither right nor proper for the government to espouse the easy cause of a policy of masterly inactivity at a time when the state of the nation's economy demands not a false consolidation but a genuine, if difficult, effort of rescue, restoration and revival.

Looked at in this manner, the Finance Minister's apparent decision to restrict new government outlay on development must raise some anxious discussion. It is true that, thanks partly to its own misdirection of resources all these years, the government has now arrived at a point where funds which are accruing to it as at present or which it may be in a position to command in the immediate future will not be sufficient to finance higher rates of development spending. But it does not necessarily follow that because of this failure of the government in its chosen field, all the rest of the economy should also be content to lead a negative existence until such time as and when the government's economic policy and ways and means are in better shape. On the contrary, just because the government's resources have become enfeebled, it is all the more important that the rest of the economy should be given its legitimate opportunities for showing what it can do to compensate for the deficiency in government-sponsored development. It is here that Mr Desai seems to be so utterly lacking in bold and imaginative ideas. It seems to us that once the government itself has confessed to an inability to spend increased amounts on development, it must also admit that it has no continuing justification for maintaining the current structure of taxation which has been transferring funds from the government sector to the rest of the economy in a manner which, in any case, has been adversely affecting the rate of economic growth and, consequently, the aggregate rates of saving and investment in the community. Surely, once the government has lost its capacity to step up its investment in economic development it has also lost automatically and simultaneously its right to

make any unduly heavy draft on the community's resources which commerce and industry, outside government, might possibly be in a position to use more promptly and efficiently for purposes of increased production and economic expansion.

It is significant that, at a seminar on fiscal and monetary policies held under the auspices of the Federation of Indian Chambers of Commerce and Industry in New Delhi last week, there was an impressive display of agreement on the point that the central and state governments should desist from substantial additional taxation at least until the economy had recovered from the recession in industry and the general breakdown in the nation's development effort. Even such of those participants at this conference as were unable to subscribe without reservation to a plea for what was described as a "tax holiday" were only concerned to suggest that there was perhaps some scope for taxing farm incomes in the affluent sector of agriculture, either through direct taxes or through indirect taxes. So far as the taxation of the corporate industrial sector or non-agricultural personal incomes was concerned, neither at the seminar nor in the open session was any voice raised seriously questioning the unwisdom of any further substantial new taxation. On the contrary, the participants who, as a body, were certainly not interested in arguing for any exclusively business point of view, showed the utmost awareness of the importance of the central government carrying out fiscal reforms which would stimulate saving, production, exports and industrial expansion.

There was also general agreement on the urgency of a new approach on the part of the monetary authorities, whether in the government or in the Reserve Bank. It was felt that the prevailing conditions of scarce credit facilities for industry and commerce and high money rates were rendering the processes of recovery from the recession all the more difficult and the hopes of a positive economic revival hard indeed to entertain. Several specific proposals were made for a fruitful liberalisation of monetary policies and while their worth may certainly be scrutinized by the central banking authority or the Finance Ministry of the Government of India, there can be no questioning the fact that positive action is called for in the fiscal and monetary fields. In other words, the status quo in these matters has nothing to recommend it while any perseverance on the part of the government in pursuing bad, old practices of increasing taxation or restrictive credit would be positively dangerous not only to economic progress but also to economic stability.

With the central budget only some weeks away, it is natural and entirely legitimate that Mr Morarji Desai should prefer to keep his own counsel, but to the extent that he is not averse to appearing at business and professional gatherings where the government's fiscal and monetary policies must come up for discussion as a matter of course, he ought to be prepared for some measure of positive dialogue. It would

certainly be not enough to repeat, as he has been doing, that the government is in no position to think in terms of tax reliefs or indeed not to think in terms of exploring possibilities of further taxation. We agree that the government's revenue needs have a certain legitimacy or even importance, but it is also necessary to assert the fact that the government can claim no right to live beyond the country's means. It is just not desirable that more and more of the limited resources of the economy should be pre-empted for government spending simply because the government has the authority to do so or it has lost control over its expenditure. More than ever before it has become desirable that the government should cut its budgetary coat according to the community's cloth. If this is not done, the current pause in the five-year plans, which the Planning Commission says it is going to utilise for helping the economy to strengthen its development potential, may actually come to mean nothing more than a prolongation in the breakdown of the development effort.

Fortunately, Mr Morarji Desai is not altogether unaware of this danger. Addressing a meeting of the Institute of Chartered Accountants of India in New Delhi last week, he very rightly said that the case for immediately increasing the tax burden on the agricultural sector was being over-argued. As the Finance Minister wisely remarked, the country would stand to benefit more from allowing, for some time to come, the affluent section of the agricultural community to use or invest as it would such increases as there may be in its incomes than by calling upon the government to mop up through taxation any gain in the purchasing power or savings in the farm sector. The commercialisation of agriculture on healthy lines, which is what this country must promote if its agricultural sector is ever to contribute its share of resources to national economic development, will become possible only if, for a period at least, progressive farmers are left free to make money and also keep it. We hope that the Deputy Prime Minister, in his capacity as Finance Minister, will also appreciate the wisdom of adopting the same enlightened fiscal approach towards other growth sectors in the economy. Industry needs as much as agriculture the leavening effect of investible profits.

A.I.M.O. CONFERENCE ON "EXPORT MANAGEMENT AND PROMOTION"

The All-India Manufacturers' Organisation and the West German Foundation have jointly sponsored, in co-operation with the Indian Institute of Foreign Trade and the Indian Council of Foreign Trade, a five-day conference on "Export Management and Promotion". The conference, which will be held at the Taj Mahal Hotel, Bombay, will be inaugurated by the union Minister of Commerce, Mr Dinesh Singh, on Monday, January 22. 'Eastern Economist' has pleasure in announcing that it will publish a special supplement along with its issue of January 26 presenting the background, the purposes and the proceedings of the conference.

Learning from Mistakes

THE GOLDEN Jubilee celebrations of the Indian Economic Association, held in Madras recently, were watched with great interest. Apart from the excellent arrangements for conducting the session even under difficult conditions, there was general anxiety to know what the economists had to say about the state of the economy and what should be done to get it out of a stagnant phase. Many eminent economists from all over the country attended the conference and an impressive list of papers on diverse problems was presented. The Governor of the Reserve Bank, Mr L. K. Jha, who inaugurated the conference, set the pace for the deliberations by a thought-provoking address while Prof. M. V. Mathur, Vice Chancellor of Rajasthan University, who presided over the conference, indicated in his well-prepared speech how planning could be made more successful and in what manner there could be a more broad-based formulation of schemes with the states improving their organisational set-up for this purpose. Among the important speakers, who addressed the august gathering of experts, were Dr V. K. R. V. Rao, Mr G. L. Mehta, Chairman of Industrial Credit and Investment Corporation, Dr P. S. Lokanathan, Prof. C. N. Vakil, Dr Lakdawalla, Dr Malcolm Adiseshiah, Mr S. Narayanaswami, Mr M. V. Arunachalam and Prof. B. R. Shenoy.

The subjects discussed included the food policy of the government, the inflationary situation in the country, the recession, foreign collaboration and incentives for foreign capital, export promotion and so on. Mr L. K. Jha's inaugural speech and the address of Mr V. V. Giri during one of the sessions must have set many economists at thinking. Both of them stressed the need for a careful analysis of the peculiar problems confronting the country, and for the evolution of theories which will help the planners and administrators to proceed with their tasks on an assured basis and achieve impressive results. Indeed, Mr Jha put forward a strong plea for independent thinking and a correct understanding of our difficulties as he seemed to imply that many of the earlier mistakes had been brought about by an indiscriminate adoption of policies pursued by the developed western countries and that it was wrong to think that tried experiments in affluent societies would have equal validity under entirely different conditions in the Indian context.

There is much to be said in favour of the observations of the Governor of the Reserve Bank as the calculations of the planners, following devaluation of the rupee, have gone seriously wrong and it has not been possible to reverse the recessionary trends brought about by two severe droughts and accelerated, rather ironically, by devaluation, even with the availability of massive non-project aid. Something has gone seriously wrong somewhere and there is no disposition either among the economists or in official circles to adopt a

pragmatic approach and find out how excessive centralised planning has had a distorting effect on the development of the economy and resulted in wasteful use of available resources. Even though it is now generally agreed that there will be a big increase in agricultural production and the indirect benefits of the increase in purchasing power of the population will be reflected in a revival in economic activity only in particular directions, there is no preparedness to hasten the pace of the recovery by effecting appropriate changes in development projects and stepping up outlay in select sectors, if need be, through deficit financing and special incentives for foreign private capital.

Prof. Mathur suggested that there should be a complete probe into the causes that have brought about the present state of affairs. He is obviously of the opinion that there should be a clear understanding of the factors that have been responsible for the failures of the planners and for the friction between the central and state governments. He stated that the Planning Commission should be assisted by a top level panel of experts from various walks of life while there should be a standing Finance Commission in order to be in a position to redetermine, whenever necessary, the relations between the central and the state governments. The planning apparatus also will have to be strengthened at various levels. The new organisational arrangements are necessary, according to him, for focussing correctly attention on the various problems

Eastern Economist 20 Years Ago

JANUARY 16, 1948

After a painful period of slavery followed by the worst phase of three years of military occupation, war devastation, widespread anarchy and turmoil, Burma has emerged at last as a free nation. January 4, 1948, proclaimed to the world the birth of the Republic of Burma. Coming in such close succession to the independence of India, the liberation of Burma will be hailed by the peoples of Asia as an event of profound significance to the peace and prosperity of their vast continent as also of the whole world. Imperial rule is fast crumbling to the ground and the forces of emancipation released by the last war have not failed to sweep away its last vestiges in Asia. It certainly redounds to the credit of Great Britain that she chose the honourable path of peaceful settlement with her erstwhile dependencies in the interest of future amity. Her compeers—France and Holland—can deviate from it only at dire peril to their own permanent stake in this continent.

and for bringing about the best use of available resources. But it should not be overlooked that a mere redistribution of available resources between the centre and the states cannot bring about miracles. Except in a few cases, the state governments have demonstrated that they can be equally culpable of an uneconomic use of scarce resources and the developments in the past few months have clearly suggested that some state governments can even be irresponsible apart from being quick to blame the centre for all their ills. Prof. C. N. Vakil was naturally critical that the inflationary situation, brought about by bad planning and wrongful use of resources, had inhibited growth of incomes and savings. The prices and distribution policies have had a devitalising effect while the mixing up of political issues, when considering economic problems, has had a distorting effect on the economy.

But it was given to Mr G. L. Mehta and Dr Lakdawalla to adopt a constructive approach and draw attention to the economic progress achieved in some directions and to its vitality. As the Chairman of the Industrial Credit and Investment Corporation and the India Investment Centre, Mr Mehta has naturally had ample opportunities to study how collaboration agreements with foreign interests have been helpful in

hastening the pace of industrial development of the country and what should be done to attract foreign private capital in select spheres on a much larger scale than now. Mr Mehta is not unaware of the fact that easy availability of technical know-how has also had a dulling effect on the initiative of Indian technical personnel. He has also said that it is necessary to bear in mind the essentially rural nature of the economy. Since the anxiety about the recent development in the political situation has had a discouraging influence on foreign investment, it is imperative to adopt a pragmatic approach when formulating new policies for ensuring continuity of foreign aid and investment.

Dr Lakdawalla was inclined to be critical of the attitude of those countries which tried to impose conditions before granting aid. But he was of the view that it was not correct to take a gloomy view of the future as the quantum of aid had not shrunk in absolute terms and, if there was inadequacy, it was due only to the growing needs. Since there was prospect of a distinct improvement in the agricultural situation in the current year and there was "nothing chronic about the temporary paralysis of will which has overtaken the Indian economy", Dr Lakdawalla felt that the next decade would see a bold export policy and

more rapid expansion of exports. There was also no reason to regard the overall Indian performance as incapable of improvement. The Professor, however, disapproved of the attitude of the US government in declining to assist public sector undertakings in activities which could be taken up by the private sector without difficulty. The cautious optimism expressed by him and his sober analysis must encourage those who are inclined to take a more hopeful view of the immediate outlook though it is generally recognised that there should be a radical change in official policies and an intelligent rationalisation of fiscal and monetary measures in order to get the economy moving again and regain its lost momentum.

Dr Lokanathan reiterated his faith in regional co-operation and called for a pooling of resources of the countries in the south-east Asian region so that wasteful use of resources for producing steel, paper, chemicals, pulp and other items is avoided. The resources of several countries could be profitably pooled for maximising output on a competitive basis. He also emphasised the need for raising the output of rice on a defined basis and for the conclusion of arrangements between producing and consuming countries so that the best gains can be secured out of the facilities for

producing this essential cereal over a large region. The importance of intra-regional co-operation has been recognised for quite some time and there has latterly been anxiety on the part of India, Malaysia and Ceylon to forge closer economic ties. With conditions in Indonesia also returning to normal, the prospects for better regional co-operation have probably improved. However, with some devisive forces at work and mental reservations in some directions, it will not be justifiable to expect that impressive results can be secured by pursuing these ideas immediately. These cannot, however, be abandoned as they will have to be persisted in in the 'seventies when the efforts to achieve political stability would have borne fruit. The advantage of exploiting natural resources for regional benefit would then be better appreciated. Though it cannot be denied that the economists who assembled at Madras recently spoke in different voices and there was no consensus, they have realised the need for a pragmatic approach to national and international problems. It will not be surprising if, after the debacle of the last two years, there is a greater disposition to examine more closely emerging problems and give a positive lead to the government and planners so that they can discharge their responsibilities more efficiently and profitably than they have been able to do so far.

Trade with Russia

THOUGH INDO-Soviet trade has progressed impressively in recent years, it does not seem to have helped our country to diversify our exports to the USSR to any significant extent. Whether this has been due to the non-availability of non-traditional goods in sufficient quantities or uncompetitive prices, the time has come for the Government of India to make more energetic efforts in this direction. One way to do this is by taking our business community into confidence while renewing trade agreements. Indo-Soviet trade has assumed increasing importance to our economy but our businessmen generally do not have a clear idea of the market conditions in the USSR, especially the types and quantities of goods required by it, and the prices at which it is importing them from other countries. The published texts of the trade agreements merely mention the names of the commodities available for export and import but these facts by themselves are not of much practical use to those businessmen keen to sell more to Moscow. The Commerce Ministry and the Indian embassy in Moscow should therefore play a more positive role if the expansion of Indo-Soviet trade is to produce the expected results. They should, for instance, keep our businessmen and trade associations fully and continuously informed about the changing pattern of the Soviet economy with special reference to its foreign trade.

The Indo-Soviet trade pact signed in New Delhi on December 26, 1967, envisages a total volume of trade worth Rs 300 crores in 1968. From Rs 88 crores

about 10 years ago, our trade with the USSR increased to Rs 198 crores in 1966 and to about Rs 280 crores in 1967. The agreement for 1968 provides for increased export of non-traditional items such as ready-made garments, rolled steel products, automobile tyres and tubes, spectacle frames and so on while the export of traditional items is to be maintained at the previous year's level.

In this context, it is worth noting that both in 1965-66 and in 1966-67, our exports to the USSR consisted predominantly of a handful of traditional items such as coffee, cashews, spices and textiles, as shown in the table on page 92, prepared by the World Trade Department of the Indian Chamber of Commerce, Calcutta. It will be seen that, besides footwear and cinematographic films, there were no other non-traditional items of importance exported to Russia in the last two years.

While we should stress the need to step up the export of new items, the importance of increasing the offtake of traditional items should not be overlooked. This, of course, should be done without in any way affecting our exports to the general currency areas; and this should not prove difficult provided efforts are made to increase adequately the production of traditional goods.

For example, the USSR has been our biggest buyer of cotton textiles in east Europe, accounting for 24.8 million square metres in 1966 compared to 23.0 million

EASTERN ECONOMIST

ANNUAL NUMBER 1968

This year's Annual Number of EASTERN ECONOMIST, which is just out, analyses the present state of the economy in terms of the recession and the prospects of recovery. It discusses the political and economic factors, both domestic and foreign, which have a bearing on the next stage of our planning and development.

A special feature of this Annual Number is a section devoted to the progress and problems of some of our major industries. An effort has been made in this section to define the specific issues facing these industries in terms of national needs and capabilities.

Profusely illustrated with charts and colour graphs and containing a useful compendium of statistics, the Annual Number is priced Rs 10 per copy. It is available at all the leading bookshops and can also be had directly from the office of EASTERN ECONOMIST, United Commercial Bank Building, Parliament Street, New Delhi.

New subscribers, who will enter their subscription for 1968 before March 31, 1968, will be entitled to the Annual Number free of cost.

square metres in 1965 and 5.4 million square metres in 1964. For our jute goods also, the USSR has been a major market, absorbing, in 1966-67, 5,700 tonnes of hessian cloth, 16,092 tonnes of hessian bags, 54,319 tonnes of sacking bags and 3,698 tonnes of corn sacks. This country has also been the biggest supplier of tea to the USSR. In 1966 out of 21,319,000 kg of tea imported by the USSR, our share was 15,967,000 kg and Ceylon's 3,221,000 kg. Our tea exports to the USSR in the first eleven months of 1967 are estimated at 19,772 tonnes—11,000 tonnes from north India and 8,772 tonnes from south India.

Trade circles believe that, with a population of about 215 million and the per capita consumption being less than one pound per head, there is vast scope for increasing our tea export. Incidentally, it is interesting to note that in the USSR tea is taken in glass tumblers. A prominent planter from this country, who recently visited the USSR, found that the people there prefer "an extremely weak tea" with a slice of lemon on top. He thinks that this weakness for weak tea may be a hang-over from the green tea habit or due to the high cost of tea; and he estimates that we could make about 500 cups of such weak infusion from one pound of tea. In any case, if our country can steadily increase the production of tea and offer it at competitive prices, it should not be difficult to step up exports to the USSR substantially. Similarly, the USSR's offtake of coffee is also expected to increase considerably in the coming years. According to one estimate, imports of raw coffee into the USSR will be about 960,000 tonnes by 1980 on the basis of a per capita consumption of 3.5 kg.

In the drive for the expansion of Indo-Soviet trade, the effective utilisation of the Soviet credit assumes considerable significance. During the third five-year Plan the utilisation of Soviet credit was only about 64 per cent compared to 73 per cent in the second Plan. The Estimates Committee of the Lok Sabha, in its eleventh report issued in August 1967, pointed out that the Soviet practice of insisting on the repayment of principal and interest even before the plants had started full production tended to aggravate the balance of payments difficulties. The committee urged the government to explore the possibilities of obtaining liberalisation of the terms of payment. It is not known to what extent the Government of India has succeeded in its efforts in this direction. In any case, the government should see to it that the projects set up with Soviet assistance such as the heavy machine building plant at Ranchi, the coal mining machinery plant at Durgapur, the steel plants and the oil refineries are all able to work to full capacity. Finally, we should stress that success in promoting exports to the USSR as well as to other countries will ultimately depend on how fast we are able to increase our agricultural and industrial production, an objective to which our government should give more attention without undue emphasis on ideology.

INDIAN EXPORTS TO THE USSR

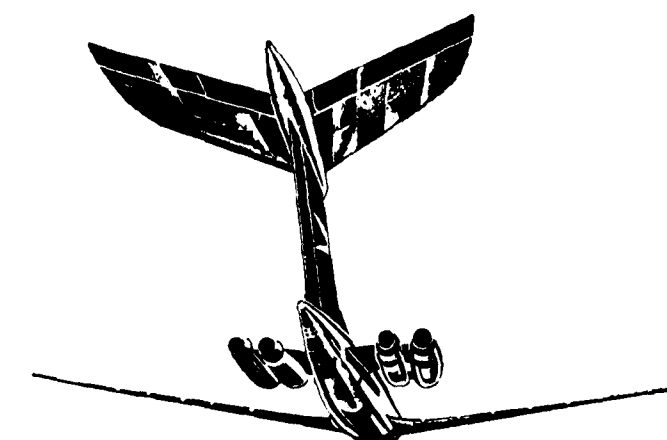
Article	(Value in '000 rupees; figures in brackets equivalent '000 US dollars.)	
	1965-66	1966-67
Cashew kernel	6,33,76 (13,246)	12,80,52 (18,004)
Coffee, not roasted	4,29,24 (8,971)	3,57,18 (5,022)
Tea, black	12,36,32 (25,839)	16,34,67 (22,983)
Pepper, black	3,41,40 (7,135)	2,56,90 (3,612)
Cardamoms	14,13 (295)	43,31 (609)
Tobacco, unmanufactured	5,78,61 (12,093)	1,87,00 (2,629)
Goat skins, undressed	5,36,53 (11,213)	10,53,89 (14,818)
Sheep and lamb wool	4,06,82 (8,503)	2,87,56 (4,043)
Jute, raw	2,57,15 (5,374)	7,16,01 (10,067)
Mica	82,65 (1,727)	67,93 (955)
Lac	78,00 (1,630)	36,71 (516)
Castor oil (crude & refined)	1,70,93	—
Organic chemicals	25,26 (528)	5,84 (82)
Insecticides, fungicides, etc	36,72 (767)	4,13 (58)
Essential oils	19,77 (413)	41,05 (577)
Leather	62,06 (1,297)	10,37,47 (14,587)
Furnishing cloth, machine printed	91,52 (1,913)	47,35 (66,6)
Poplin, machine printed	1,59,27 (3,329)	1,26,20 (1,774)
Twill and satin, machine printed	23,09 (483)	30,11 (423)
Hessian cloth	6,19,17 (12,941)	1,47,96 (2,080)
Hessian bags	10,54,44 (22,038)	5,68,52 (7,993)
Sacking bags	5,19,47 (10,857)	13,58,34 (19,098)
Jute corn sacks	2,45,13 (5,123)	1,04,93 (1,475)
Footwear	2,47,78 (5,178)	4,07,25 (5,726)
Cinematographic films, exposed	35 (7)	1,29 (18)
Total all items (Rs Lakhs)	92,89 (194,1)	116,30 (163,5)

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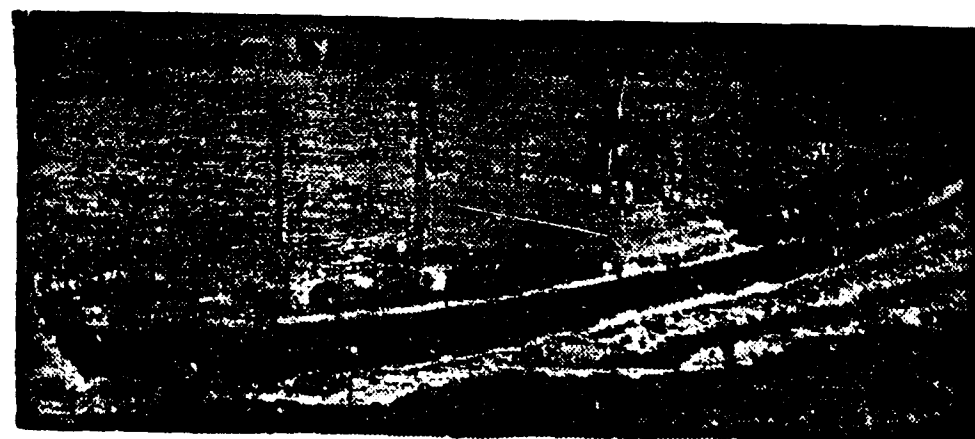
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Lack of Orders Hits Power Cables

Dr C. A. MEHTA

THE MANUFACTURE of power cables was started for the first time in our country in 1958-59 when the Indian Cable Co. Ltd. began the production of PILC cables. This was followed by the Cable Corporation of India Ltd, which started manufacture of PVC cables in the year 1961-62. Two other companies, viz., Universal Cables and Oriental Power Cables Ltd, started manufacture of PILC cables during the year 1964-65. Today there are seven factories manufacturing PILC cables with an installed capacity of 10,000 kms. All the PILC cable manufacturers also now have installed capacities for manufacturing PVC cables which have come into use in a fairly wide manner in lower voltages. There are also a large number of comparatively small companies which are making only PVC cables exclusively. The investment in the PILC cable industry, however, is considerably higher than that in PVC cables at present. In the early stages of the development of this industry, government policy was only to encourage PILC manufacturing units as compared to PVC cables, though the raw materials for both were largely imported; yet, the PILC cables have been considered to be superior in quality as our engineers have been accustomed to use only PILC cables which have a very much longer and trouble-free life with fewer chances of breakdowns and power failures.

For over a year now all engineering industries are faced with serious difficulties mainly arising from the recent recession. But in the case of the power cable industry, the problems are much more serious as they mainly arise from faulty planning. The current recession has further aggravated the difficulties which the cable industry is facing and has made its position extremely serious and critical. The current flow of orders is hardly 30 per cent to 35 per cent of the level of orders which the industry was getting before the devaluation and which itself was barely covering 50 per cent of the industry's capacity. Although the production levels have fallen very much, the inventories of raw materials have greatly increased due to liberal import licences under IDA loans. As the consumption of raw materials has decreased, this has led to an abnormal heavy stocking (far beyond the credit limits allowed by the banks). The industry is finding it extremely difficult to maintain the financial liquidity and the present level of employment.

Wide Gap

The fundamental trouble with the cable industry arises from the wide gap prevailing between the actual requirements for cables in the country, the planned production targets and the estimated demands on the basis of which the industry has been developed. In the last year of the second five-year Plan, 1960-61, the total production of PILC cables was 1,080 kms and the total imports were 1,457 kms. Making allowance for some imports of cables coming with complete plants, which might have not been declared separately in the customs returns, the total consumption in the last year of the second five-year Plan was well below 3,000 kms. However, the demand for paper insulated cables was placed at 15,700 kms at the end of the third five-year Plan and subsequently the target for 1970-71 was fixed at 25,000 kms.

Against the estimated demand of 15,700 kms of PILC cables in 1965-66, the actual consumption was only about 6,880 kms. The table alongside gives the production and imports of PILC cables during the past 6 years.

During the third five-year Plan, the total installed power generation capacity increased from 4.5 million kW to 9.5 million kW, i.e., an increase of 5 million kW. This would show clearly that the total requirements of PILC cables per million kW was

approximately 5,000 kms, but in planning the demand targets the basis assumed was 10,000 kms of PILC cables per million kW new power generation. This was estimated by the Development Council for Heavy Electrical Industries on the basis of the German pattern of demand for PILC cables of 12,000 kms per one million kW of new power generation and it was assumed that as the German population is highly urbanised, more underground power cables are used than in India which has a much higher percentage of rural population.

It is surprising that planning for such a capital-intensive industry was based on some vague and inaccurate data about assumed consumption of underground PILC cables and that no effort was made to study the actual consumption of PILC cables in our country during the second and third five-year Plans and relating it to the generation of new power during these years. Even if a little care had been taken to study the actual consumption and relate it with the growth of our power generation, the fallacy underlying the assumption of 10,000 kms of PILC cable requirements per one million kW of new power generation could have been avoided and correct planning targets could have been established.

Parallel Position

In the case of PVC cables also, the position is almost parallel to that of PILC cables and the production is hardly 30 per cent of the installed capacity, as the targets and the estimated demands for PVC cables were also placed at similar unrealistic levels.

The imbalance between available supply and demand arising from this over-estimate regarding requirements of PILC and PVC power cables could not have been rectified by increase in demand for cables if economic development could have been continued at the expected growth rate. But, with the postponement of the next five-year plan by three years, the new power generation targets set for a fourth five-year plan will not be realised and the new power generation may probably be five million kW as compared with the estimated increase of nearly 10.5 million kW by 1970-71. The present government estimate that power development will reach the figure of 18 million kW is not likely to be achieved. In fact, the imbalance between installed capacity and demand for cables is likely to be increased by two factors. More capacity is likely to be installed under the licences already granted in anticipation of expected increased requirements of cables to meet the power targets of a fourth plan. Secondly, although the internal consumption (including imports and indigenous production of PILC cables) for the year 1965-66, which is the peak year, was just about half of the installed capacity, it was decided by the gov-

PRODUCTION, IMPORTS AND CONSUMPTION OF PILC CABLES DURING 1961-1967.

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	3,963	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 for six years	2,871	1,606	500	4,977	938

ernment to switch over to PVC cables in the range of 1.1 kV which would further considerably reduce the occupancy of the PILC plants as the demand for 1.1 kV cables is approximately 50 per cent of the total PILC production.

Such a drastic step cannot be justified when huge capital was invested in the industry only very recently. Most of the companies engaged in this were started only three years ago and they have not had enough time to write off plant costs. Secondly, such a step is partly based on a fallacious idea that a country has to be fully self-dependent on all the raw materials for its industries. That this idea of self-sufficiency is not required becomes quite apparent if one were to take into account the fact that the PVC compound, which would be indigenously produced for manufacturing 1.1 kV power cables, could very well be exported, in turn earning foreign exchange to offset the expenditure which has to be incurred in foreign exchange for importing important raw materials like lead, insulating compound, insulating paper etc. required for PILC cables.

The manufacture of some of these raw materials like paper and insulating compound could easily be started in our country and for any long-term policy they should be treated as being available indigenously. It is only a question of import of lead in which, of course, it is presumed that our country would remain short of supply for a long period. The net foreign exchange expenditure necessary for the manufacture of PILC cables which have many advantages over the PVC cables is comparatively of very small proportion and does not justify a sudden upheaval in the cable industry which is going to be the result of the implementation of the policy which the government has recently initiated. In fact, if one were to take into account the differences in the life of the cables (PILC cables are known to last for over 60 years), there is a considerable force in the argument in favour of continuation of manufacture of PILC cables in spite of having the necessity of importing lead, and the best and only rational course would have been to allow both the manufacture of PILC and PVC cables and allow the natural competition to establish the proper level for both these types of cables.

Fallacious Estimate

It seems that the compelling reason for the policy of substitution of PILC by PVC cable in the 1.1 kV range, the latest contemplation going even up to 11 kV range, is the falsely assumed estimate of a huge demand of 25,000 kms by 1970-71, but this estimate is entirely fallacious as can be seen by the actual consumption figures of PILC cables. The expected savings by substitution of PVC in place of PILC would surely dwindle down to a very small figure particularly when after making the adjustment which is due to the potential export of PVC compound, which would be otherwise used for manufacture of PVC cables, and the value of import of lead required for the PILC cables, if the change-over does take place as contemplated.

The industry has only come into existence towards the end of the third five year Plan although there was one plant which started production as early as in 1958-59. Already the industry is suffering from internal competition due to lack of demand and the eagerness of manufacturers to dispose of huge inventories of raw materials following the sudden liberalisation of import licences. Cable prices had been reduced by about 25 per cent below the pre-devaluation prices which meant that cables have been sold during the last 12 months or so at prices covering barely raw material costs. Only recently efforts are being made to reach fair economic prices. The PVC power cable industry has come into existence even later than the PILC cable industry and thus in both these industries, the plants have not been able to write off any appreciable amount by way of depreciation and therefore the industry has not been able to establish any reserves, or even pay off the instalments due on

the plant and equipment which have been purchased mostly with the help of deferred payment terms and other capital loans from financial institutions.

The cable industry being new, nearly 90 per cent of the plant was of imported origin unlike other established industries where proportion of indigenous equipment is very much high. As the imported equipments have been purchased not from free foreign exchange but from tied foreign credits, two consequences have followed. The cost of the plant when purchased under foreign exchange credit is usually from 20 to 25 per cent higher as compared with competing world market prices; and most of the plants have had to pay 40 per cent import duty on these inflated values. The net result is that the capital cost of the indigenous plant is about 60 per cent higher than the cost of similar plants installed, say, in Germany or Japan, during the same period and is about three times more than plants of most of the foreign cable manufacturers whose plants have been installed or modernised and re-equipped in the late 'forties.

Unutilised Capacity

As stated above, the cable industry did not have sufficient time to write off the plant cost and to repay the instalments which are due on the loans taken for the purchase of majority of the plants. In the meanwhile, the government has adopted a policy of changing over from PILC cables to plastic cables before the industry has even passed its infancy. A minimum of about Rs 12 crores has been invested in the plant and equipment for PILC cables and if the proposed restriction is enforced, the value of production left for this industry will not exceed Rs 4 to 5 crores in future. The industry will not be able to overcome the serious losses which will accrue from the non-utilisation of major portion of its plants. Serious thought should be given to these aspects and a period of at least five years should be allowed for the switch-over of PILC cables to plastic cables in all ranges up to 1.1 kV, and further two years to reach 11 kV range which will help all to know the effectiveness of switchover to LT PVC cables prior to complete change-over to PVC up to 11 kV.

The cable industry has always had to maintain much higher inventories due to the rigidity in the licensing system and other bottlenecks in the economy. For most of the cable companies, the inventories are approximately 50 per cent of the sales turnover in normal times. But, during the current year, on account of the huge import licences which have been issued, the inventories have been doubled, while sales have actually fallen. This compares most unfavourably with inventory investment in Europe and Japan. For example, inventories in Japan are about 20 to 25 per cent of the annual turn-over. The cost of interest on raw materials and inventories in our country is nearly 10 per cent at present and another five per cent would represent interest charges on the long-term loans for the purchase of fixed assets apart from the equity share capital.

The government should direct the electricity boards to place advance orders for their requirements in view of the electricity expansion expected in the coming years. A similar step is being contemplated in the case of railway equipment required by the Railway Board and this policy should be adopted to even out the flow of orders in the case of the government's cable requirements.

Banks should provide additional credits against excess stocks till they are adjusted to normal levels. The raw materials imported under IDA loan should be separately financed and not included in the normal credit limits granted to the various companies by the banks until they are actually needed to be taken into their stocks by the companies. In view of the low occupancy and low prices, many units may not be able to meet their liabilities for payment of loans received from financial in-

stitutions. It will be necessary for banks to declare a moratorium for a period of one year on the payment of instalments due on these loans.

Adequate incentives should be given for the export of cables in view of the extremely keen competition all over the world and higher plant costs and relatively smaller outputs of the industry in our country. Also, all raw materials should be made available to the industry at international prices as far as exports are concerned. Another essential step which the government has to take to help the industry is to stop imports of different types of cables, including those coming for turn-key projects. Different types of cables and electric wires of an average value of about Rs 9 crores per annum have been imported during the last five years. Even during the last year, the total imports were Rs 6.76 crores, of which Rs 85 lakhs were winding wires. If government would pay sufficient attention to stopping this import, more foreign exchange could be saved

In Tragedy a Triumph

SHRIKRISHNA VANJARI

THAT THE recent disastrous earthquake with its focus in Koynanagar in Maharashtra state which has taken a toll of human life and property rendering a population of 200,000—300,000 persons homeless should have left intact the dam and other works of the Rs 55-crore Koyna hydro-electric project has naturally produced a universal sense of relief, not unmixed with surprise. This happy situation is perhaps the only redeeming feature of the tragic natural calamity that has created the problem of relief and rehabilitation of victims of the earthquake and the reconstruction of the economy dislocated by a disaster of national dimensions.

As the hydel project is a major source of supply of power to a state suffering from chronic shortage of power, even the temporary stoppage of supply of Koyna power produced sizable loss of production and employment, and hardships were created for the large population of Bombay city. Not only industry but agriculture that depends on power for lift irrigation was also threatened for a time with disastrous effects of power failure and curtailment. But tests carried out by experts have revealed that the dam and works of the project have resisted and absorbed the shock of the earthquake in a spectacular manner despite the closest proximity of its focus. It should, therefore, be interesting to seek the explanation of the inherent resistance to the earthquake shock and the strength of the entire structure and works of the Koyna hydel project in the design and engineering features which are, in some respects, considered unique in Asia.

Unique River

From the dam engineer's point of view, the Koyna river in Maharashtra is choice among all the rivers. The Koyna, like her sisters, rises in the western slopes of the Mahabaleshwar plateau of the Sahyadri mountain, but flows north-south parallel to the 'continental divide' of the watershed of the ghats for a length of about 40 miles. The other rivers flow east or south-east and collect rains at the source. But the Koyna basin is deeper with a catchment area of about 350 square miles having a rainfall between 150 and 250 inches, or an average of 200 inches.

The Koyna has naturally always appealed to the imagination and dreams of dam engineers. The Tatas, pioneers in hydel and thermal power generation in the country, had explored the river's potentialities half a century ago. Similarly, the State Electricity Grid Department and the Survey of India had also carried out surveys. But the popular ministry made a final bid in 1951 for harnessing the river waters for generation of power, and the project was launched in five years' time.

The data of all the previous surveys were studied and utilized and a careful and complete survey was carried out

than what is proposed to be saved by a compulsory change-over from PILC to PVC cables, from 1.1 kV and 11 kV, which is going to affect not only the fortunes of the PILC cable manufacturing units adversely but is also economically disadvantageous to the country and which is therefore being opposed by the various power supply companies who are the actual users of these cables.

The switch-over from PILC to PVC cables up to 11 kV should at least be spread over a longer period instead of the two years period which has been recently announced. Properly defined and classified statistical data of monthly production, stocks etc. of PILC and plastic cables should be published promptly. A lot of conflicting data is published and it is often impossible to arrive at the correct picture. Even government publications fail to give properly correlated and classified production data.

by the engineers of the State Public Works Department. Its chief engineer at the time was Mr Champhekar. He had considerable experience of dam engineering and of the Sukkar Barrage in Sind under the British regime and had also shown his great ability in pushing through successfully a massive crash programme of minor irrigation when the state lived under one of the worst endemic famines in the former Bombay state. The preparation of design of the dam was a laborious job and, in view of the importance of the project, some foreign experts were associated with the work. After it was finalised, it was submitted to a firm of consulting engineers in Paris which approved the blue print with minor amendments.

Large Capacity

The main Koyna dam is located at Deshmukhwadi, a village in the Patan taluka of Satara district, and stands about 1,900 ft. above the sea level and its height is about 208 ft. above the river bed. Its length at road level is about 2,800 ft. It possesses six flood gates admeasuring 41x47 ft. each. The Koyna reservoir formed by the dam has a catchment area of 344.22 square miles. It has a capacity of 98,780 million cu. ft. with a water spread of 44.54 square miles.

The dams of hydel or irrigation projects in the country are constructed with the use of masonry, rubble and cement, while the more recent one of Gangapur irrigation project in Nasik district of the state has been constructed with earth quarried in the vicinity of the project site and tested in laboratory. It has absorbed what is considered as the latest technique in dam engineering in the United States of America. Incidentally, earth had been our ancient national medium in some of the building works and the famous wall at Karad, close to the Koyna project site at the confluence of the Koyna and Krishna rivers, is found to have stood very well the force of the current during floods.

The Koyna dam has been constructed with rubble concrete, except that stones bigger in size than the ordinary rubble quarried in the vicinity were mixed in concrete with the use of vibration by machines. Special and even specially-imported machines and apparatus such as drills, concrete crushers and mixers, bulldozers, dampers, etc. were used in the construction of the Koyna dam and allied works. They certainly contributed to solidity and strength to constructional work which could stand the shock and impact of an earthquake with origin at the site itself and of considerable intensity too, which was responsible for the devastation caused in Koynanagar and the surrounding areas.

About three miles from the concrete wall of the dam on

the other side of the reservoir is the intake channel that carries the water to the intake tower over a distance of 3,370 ft. The intake tower releases the water into the head race tunnel. This tunnel has a length of 12,300 ft. and a diameter of 21 ft. It has been excavated in the rock of the mountain. At the other end of the head race tunnel is the surge well where the water streaming through the head race tunnel is received.

The surge well has four takeoffs that open on the pressure shafts which are vertical tunnels that narrow in diameter from 10 ft. in the upper part to 8½ ft. in the lower end.

The water has now a vertical drop through these four pressure shafts. It naturally gathers great force and velocity with which it turns the turbines. Each shaft is fitted with two turbines at its lower end. They are installed in the power house and above them are generators that produce power, thus completing the process of transformation of potential power of water into electrical energy.

The power house is situated across and down the ghats in Pophali, a village in the sea-coastal district of Ratnagiri. It contains the valve house, central machine hall and transformer hall. The power house thus accommodates all the generating, transforming and controlling machinery and all the equipment used for generation of power.

Under the first stage of the project, four generators with a capacity of 60,000 kW of power each were installed. Under the second stage four more generators with a capacity of 75,000 kW of power each were installed that produced a total of 540,000 kW of power with one unit maintained as a standby.

The storage of water under the first stage of the project was 36,045 cu. ft. sufficient to generate 240,000 kW of power. The storage under the second stage was increased to 98,780 cu. ft. out of which 16,000 cu. ft. are utilized for irrigation and 29,780 cu. ft. for dead storage. Under the third stage, a tail race power house is to be established to produce 40,000 kW of power. Another power house would utilize irrigation water for seasonal power with a capacity of 40,000 kW of power.

Marked Features

The unique features of the Koyna hydel project consist of the use made of the natural hard mountain rock of the Sahyadri through excavation. The power house, the penstocks through which water is carried to the power house and the tail race tunnel are all underground, scooped out of the shoulder of the mountain. This novel engineering improvisation has brought immense strength to the works and also immunity from the dangers of landslides as well as security against possibility of damage through enemy aerial attack. It has also achieved economy in expenditure with the saving of large quantities of steel and other materials. The underground works are located beneath the mountain so that, once it enters the head race tunnel, the water is not seen again till it comes out into the open after generating power under the mountain at the end of the tail race tunnel.

Apart from these features of structural strength of the works, much ingenuity and originality in engineering thought, skill, precision and accuracy in calculation have gone into the execution of the project at all stages. Thus, the 12,300 ft. long head race tunnel with its diameter of 21 ft. was bored at either end of the mountainside and the parties working on the excavation met exactly according to plan without any deviation of the slightest degree in their course!

Although a large labour force was employed in the construction of the project, various types of large-sized and powerful machinery was used, perhaps for the first time in the execution of such work. This factor also enters into the

solidity and strength of the works achieved, a solidity that could defy the destructive earthquake with its very focus at the site of the project itself. No better and more eloquent tribute could be paid to the skill of the dam engineers generally and principally of Mr Champhekar who was granted an extension of service after reaching the age of superannuation in government service to be able to see his dream take final shape under his paternal eye. Dam engineering started practically during this century in our country and Indian engineers, during the short time, have mastered its techniques and have been trying to keep themselves uptodate in the advances in this branch of engineering. The late Mr Dhanak, the engineer in charge of the solitary earthwork dam of Gangapur referred to above, had specially flown to the United States for the necessary training in earth-dam techniques perfected in that country. The Koyna design earned high admiration from foreign experts, and the recent earthquake has offered itself as the supreme test of structural strength and impregnability of the dam and works of the project.

Apart from the big investment estimated at a total of Rs 55 crores in the Koyna hydel project, it performs a vitally useful function in the progress of national industry in providing power which is chronically in short supply in meeting increasing requirements in a state, which (according to the statistics of 1964) accounts for 17 per cent of productive capital, 18 per cent of employment, 21 per cent of gross value of output and 25 per cent of the value added by manufacture in industrial activity in the country.

It was estimated that, at the end of the third five-year Plan, the state would have a power deficit of 33 mW in the Tata-Koyna-Central Railway grid system and 40 mW in Paras-Bhusawal-Khaperkheda system. This situation is created by the non-availability as yet of Maharashtra's share of the atomic power generated in the atomic centre at Tarapur and other factors also.



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FROM THE CAPITAL'S CUPBOARD

Signs of Economic Recovery?

IS THE revival of the economy underway? Some more time will have to elapse before categorical answer to this question can be given. But the wagon loadings of the railways during the past four months suggest that there has been some improvement in the general economic activity in the country.

The goods traffic on the railways in September last, indeed, was substantially less than what it was a year ago. The wagon loadings on the broad gauge system in that month were lower by 9.7 per cent compared to September, 1966; the loadings on the metre gauge were down by 10.8 per cent. In October, the shortfall was narrowed down to 2.98 per cent on the broad gauge and 2.9 per cent on the metre gauge. The November figures, however, are more revealing. For the first time during the calendar year 1967, the wagon loadings both on the broad and the metre gauge systems in this month surpassed the figures for the corresponding period in 1966. The number of wagons loaded with goods traffic (originating and transshipment) during November 1967, increased by 0.79 and 0.44 per cent on the broad and metre gauges, respectively, compared to the figures for November 1966. This was despite the fact that the traffic relating to foodgrains and pulses showed a marked decline.

Although the figures of goods traffic carried by the railways since November last are not immediately available, knowledgeable circles reveal that the total wagon loadings since November have also been higher compared to the corresponding period a year ago. The foodgrains and pulses traffic continues to be lower, thanks to the easier availability of foodgrains throughout the country as a result of the bumper kharif crop. Last year drought and famine conditions in various parts of the country necessitated large-scale movements of foodgrains, especially of imported grains.

Part of the improvement in the goods traffic carried by the railways can be attributed to increasing exports. But significant indications are also available in regard to the revival of domestic demand. The following data suggest that there has been a greater movement of cotton cloth, jute manufactures and cement since August last:

PERCENTAGE VARIATIONS OF WAGONS LOADED ON BROAD AND METRE GAUGES IN 1967 COMPARED TO CORRESPONDING PERIOD IN 1966.
(In terms of 4-wheelers, originating and transshipment)

	Cotton Manufactures		Jute goods		Cement	
	B.G.	M.G.	B.G.	M.G.	B.G.	M.G.
April 1 to August 31	-20.0	-34.5	+5.02	-9.26	+8.05	+6.06
April 1 to September 30	-11.9	-23.7	+6.13	-7.08	+5.44	+0.62
April 1 to October 31	-4.50	-21.5	+6.84	-5.86	+5.99	+5.86
April 1 to November 30	-4.83	-20.2	+9.06	+3.40	+6.02	+7.36

The pig iron traffic on the railway during the eight months to November 1967 was higher by 41.6 per cent on the broad gauge but lower by 27 per cent on the metre gauge as compared to this traffic in November 1966.

If the recently witnessed upward trend in the goods traffic on the railways continues up to the end of March, the deficit of the railways during the current financial year, experts opine, may be between Rs 20 and 25 crores despite the

encouraging trends in the earnings from passenger traffic. (The passenger traffic during the eight months to November 1967 was higher by 3.36 per cent compared to this traffic in the corresponding period in 1966. This exceeded the Railway Board's expectation of a three per cent growth in the passenger traffic this year.) A few months ago, the deficit was expected to be of the order of Rs 18 crores. The sharp increase in the prices of coal and in the dearness allowance are said to be primarily responsible for enlarging the deficit.

In view of this large deficit, a marginal increase in the passenger fares and rationalisation of the freight rates is not ruled out. With a view to not losing further the high-rated traffic to the road transport, which as a result of the lifting of controls on commercial vehicles and relaxing of intra-state and inter-state restrictions on the movement of these vehicles, is offering increasing competition to the railways, in spite of the introduction of the container service by the latter, a downward revision in the freight rates of the high-rated traffic may be attempted. To boost their earnings, the railways might have to raise the freight rates on some of the bulk commodities belonging to the low-rated goods traffic.

ACCOUNTABILITY OF PUBLIC ENTERPRISES

There is a growing recognition in official circles that with a view to correcting the image of the public sector enterprises, the return on investments made in them should be calculated after making due adjustments for such social costs as subsidised housing, education, transport and medical facilities for their employees as well as for the investments on built-in capacity which is not utilised. It is felt that for judging the profitability of the public sector undertakings, only that part of the capital invested should be taken into account which is employed in productive operations.

It is further felt that in the interest of improving the efficiency of these enterprises, targets should be fixed for the surpluses expected from them. In arriving at the quantum of surpluses, the expenditure should include only the works cost exclusive of capital related charges such as depreciation and interest. Where possible, the targets for surpluses should be fixed on the basis of comparison with capital employed and gross surpluses generated in similar industries elsewhere in the country and abroad.

There has not, however, emerged as yet any consensus on how adjustments should be made for social costs. One view is that the managements of townships should be entrusted to separate organisations. Such an arrangement, it is thought, can be easily made in the case of new enterprises whose townships are either under construction or at the planning stage, as there is no commitment to the employees of these enterprises for the provision of subsidised housing, education, transport and medical facilities. The opponents of this proposal, however, contend that such an arrangement would be detrimental to the smooth running of the enterprises. It is also argued that there would, in effect, be no saving to the enterprises in case the townships are managed by separate organisations as the enterprises will have to shoulder the burden of paying extra compensation to their employees for these social services. An interesting suggestion that has emerged is that if the public sector enterprises are permitted to lease the unutilised lands either for co-operative or for private housing, not only would they be able to obviate a part of the deficit on capital and revenue accounts related to townships but also extend housing facilities for which there is heavy demand.

WINDOW ON THE WORLD

Vietnam: The President's Sixth Point?

JOSSLEYN HENNESSY

THE WAY BACK TO ISOLATIONISM?

LONDON:

SO PRESIDENT Johnson has gone along with the first half of President de Gaulle's advice (in which he was supported by the OECD and many other authorities), namely, that the USA should take drastic steps to end its balance of payments deficit. Will President Johnson now go along with the second half of President de Gaulle's advice, i.e., take drastic steps to end the Vietnam war?

The question is not so crazy as at first sight it may seem. In the first place, President Johnson has shown guts and courage in proclaiming his Five Point Plan—which cannot be popular—in an election year. Secondly, for a variety of reasons, I doubt that his Five Points will, in fact, eliminate the US deficit. So if the President needs to take further measures, having taken the unpopular policies first, it should be easier for him to search for a solution to Vietnam because success in that would be widely popular. Let us examine the facts.

If you look at the US balance of payments from 1961 (to go back no further), you see that when you subtract military expenditure the current account has been in surplus every year. The OECD Annual Survey of the USA lumps together US military expenditures on NATO in Europe, on the Vietnam war and on commitments elsewhere. A US withdrawal from NATO would cause alarm and despondency throughout western Europe. Only President de Gaulle professes to view the possibility with equanimity, but that, I suspect, is because he assumes that the US has no intention of withdrawing. President de Gaulle's great act as the independent arbitrator of European (not to mention African, Middle Eastern and even Canadian) affairs would collapse overnight, because, despite the President's rhetoric, France is a small military power, which depends for survival—as we all do—on Soviet-American relations. President de Gaulle would be lost to sight in a European confrontation with the USSR without an American military presence.

The repercussions of a US withdrawal from NATO would be felt in India via the Middle East, Afghanistan and Pakistan.

An American View

A US withdrawal from Vietnam would alarm a minority in Europe and North America, but, judging by press comments, would be welcomed by a majority not only in Europe and Asia but in the USA itself. The repercussions of a US withdrawal from Vietnam would be felt with the force of a tidal wave throughout Asia—not least in Thailand, Burma, India and Pakistan. A striking article published by Dr George Cline Smith, a leading US economist, in "Moorgate and Wall Street" (the quarterly review issued by Hill, Samuel and Co., merchant bankers, 100 Wood Street, London, E.C. 2.) suggests that the majority who want the USA out of Vietnam may well have their wishes granted.

Dr Cline Smith points out that the USA is still essentially economically independent: not literally but practically. A meeting of business economists in Europe, for example, is likely to concentrate on international trade and monetary problems, whereas these topics would hardly be mentioned at a similar American gathering.

Despite this lack of deep economic involvement, the

Americans, with what they thought was a sense of responsibility and goodwill, became amateur internationalists after World War II, investing much effort and a substantial chunk of their national wealth in good international causes such as protecting nations from the encroachments of communism. In today's comparatively relaxed Soviet/Euro/American relations, this may seem unimportant, possibly even officious. But none of the European nations "liberated" by Stalin would agree with this (even today) and those outside the Iron Curtain who would agree either have short memories or are too young to remember the aggressiveness of Stalin towards Europe. Only after a long time will historians be able to judge whether the US commitment to contain communism—leading eventually to Vietnam—was worthwhile. But the ordinary US citizen is giving his own verdict right now. He is saying in effect: "What we did may have been necessary at the time, but we got no thanks for it. It didn't make us friends abroad. It was a colossal expenditure of wealth. We've got enough poverty and problems at home, so let's let the rest of the world take care of itself and cultivate our own back garden."

Fashionable Talk

In other words, isolationism, economic and political, is on the way back in the USA. The reduction in foreign aid programmes, the diminished interest of the Johnson administration in the Kennedy Round tariff negotiations, the recent proposal for a Marshall Plan for American cities, and not least the rapid chilling of what little enthusiasm there ever was for the Vietnam war, support Dr Cline Smith's argument.

Future US politicians will note President Johnson's experience with Vietnam. It is fashionable in Europe and in parts of Asia to talk about US aggression, but let us not forget that in President Johnson's view, he is honouring a commitment to defend an ally. For this, he has been almost universally condemned abroad and substantially condemned at home. The next president faced with a similar situation will be more likely to cast about for loopholes in the texts of treaties rather than dash in to defend an ally. For this, he will be condemned abroad but he will have the substantial support of a more cynical electorate at home. Are you listening there in New Delhi and in Paris?

Rising isolationism in the USA is not exclusively home-grown. Partly it reflects a trend towards jingoism, suspicion and anti-Americanism elsewhere in the world, most noticeable to an American in France, Japan and the EEC countries. (I don't know about India?). "If that's the way they want it," the US taxpayer is saying, "then let them have it the way they want it."

An American withdrawal from Vietnam would end the US balance of payments deficit. And what is more this would enable President Johnson to cancel his unpopular Five Programme with, I suggest, substantial benefits to the world.

II

EFFECTS OF DOLLAR SURPLUS ON WORLD TRADE

What would be the effects of a US dollar surplus on world trade?

If the world contained only two countries, the USA and the USSR—and the USSR had a payment balance surplus, then the USA would have a surplus. The USSR deficit would have arisen because the USSR, virtually self-sufficient, would have wanted to

nothing from the USSR. If this situation persisted, trade between the two countries would dwindle to a point at which the USSR could only buy from the USA the equivalent in value of the small flow of Soviet exports that the USA wanted, say, a little caviare, and perhaps some tourism.

This, but for two facts, would have been the situation between the UK and the rest of the world in the 19th century following the industrial revolution, when the rest of the world clamoured to buy UK manufactures, while the UK needed to import what was, by comparison, an infinitely smaller flow of food and raw materials. The first fact that, however, enabled world trade to multiply was that the UK used her balance of payments surpluses to invest abroad, i.e., the UK kept her domestic consumption at a level which enabled her to export capital goods, machinery, banking, and insurance services, and technical experts (e.g., those who built railways in Europe, India, and North and South America).

The second fact was that the UK had a sufficient accumulation of wealth and expertise to manage the entire world's credit system. She kept the value of the £ constant by relating it to a fixed amount of gold which she was always ready to give for a £. Since the UK managed the system efficiently, all nations accepted it and the UK was able to run it with extremely small reserves of gold which nobody wanted because they preferred to keep their reserves in sterling bonds earning interest.

This system collapsed after 1914 when World War I impoverished the world and disrupted its trade. The inter-war depression encouraged nationalism, tariffs, "autarky", and other disasters

Role of IMF

After World War II, under Keynes' inspiration, determined efforts were made to avoid a repetition of the inter-war depression and autarky and to restore international trade. The International Monetary Fund emerged. It was not quite what Keynes wanted. Its initial resources were \$8,000 million instead of \$25,000 million. Keynes wanted the IMF to create deposits, instead they consisted of member countries' subscriptions to the IMF. Each country's was one quarter in gold, three quarters in its own currency. Ultimately it could draw out the whole of its quota in gold or foreign exchange, i.e., four times as much gold as it had subscribed. This was how the IMF added to international liquidity. But although a country could freely withdraw an amount equal to its gold subscription, each subsequent slice could only be drawn after increasingly critical scrutiny by the IMF. In practice, the IMF lends money to a country for a period and on conditions.

In other words, while the IMF does a fine job in helping countries over temporary balance of payments difficulties, it is not equipped to solve persistent deficits and this for the basic reason that the countries of the world will no longer accept, as they did before 1914, that there should be de facto, a single world monetary authority controlling credit by means of a world reserve currency attached to gold. As long as that had been accepted, the volume of world trade and credit grew in an orderly fashion and in constant values. This meant (although no one seems to have realised it at the time) that all internationally trading countries had surrendered to the Bank of England the management of their currencies and foreign credit.

Among the several reasons why they are no longer ready to do this is that Keynes explained how a nation could promote full employment by credit expansion, and no country is now prepared to allow the level of its employment to be controlled by an outside authority. I, however, am among the

minority of observers who argue that no country has gained much by pursuing unco-ordinated full employment policies which have created (1) the competitive inflation without which the volume of world trade would be substantially higher than it is and (2) the superfluous and destructive battle between the countries with surplus and the countries with deficit balances of payments.

The Anglo-Americans, running deficit payments, argue that the world is threatened with a liquidity shortage. They allege that the surplus European countries pursue anti-social policies: i.e. they refuse to remove trade barriers against imports (particularly from the developing countries). With this allegation I agree, but when the Anglo-Americans go on to assert that the Europeans do not offset their surpluses by sufficient exports of capital, I argue that qualifications are needed.

You Can't Export Deficit

The Europeans have a strong qualifying point when they retort that they do not like running large surpluses—a large surplus means that the country has a lower standard of living than it might, because some of its exported goods and services are being exchanged for gold and foreign currency holdings instead of being used at home or for exchange for imports. The Europeans reasonably argue that the UK and the USA have for years been pursuing inflationary policies which inevitably lead them to deficits and therefore allow them to enjoy higher standards of living than they have earned. The Europeans rightly point out that when the UK exported its 19th century surpluses (not deficits), these exported surpluses represented the real values of a constant currency, so that real (not inflationary) values were exported, whereas today a large part of Europe's "surpluses" represent inflation imported from countries inflating faster than Europe is. If Europe were to export these inflated values in full, they would therefore simply raise prices in the receiving countries and continue the vicious spiral of inflation.

The Europeans further reasonably complain that since the dollar and the pound are reserve currencies, the USA and the UK can finance their deficits in their own currencies. Any other country with a deficit has to pay its debts in gold or foreign currencies, either from its own reserves or by temporary borrowing from the IMF and there is obviously a limit to this process. But the UK and the USA pay their debts by printing pounds or dollars—in fact, by handing over interest bearing sterling or dollar bonds—and there is no limit to this process. Or, at any rate, there has not been until recently when holders of sterling assets lost confidence in the process to the point of forcing a devaluation, and holders of dollar assets have become increasingly restive.

One element in the US deficit reflects substantial investments by US firms in France and elsewhere. France has been losing control of large parts of her major industries and getting in exchange nothing better than US treasury bills. Some people criticise French antagonism to US investment as a recrudescence of blind nationalism, but the point, as I see it, is that under the stable pre-1914 monetary system the French would not have been getting US treasury bills but imports of capital equipment in real values.

In "Keynes and After" (Penguin-Pelican, London, 1967), Michael Stewart (a senior economic adviser to the Wilson government) points out that the cumulative US deficit since 1951 totals \$30,000 million. The surplus countries of Europe to which most of this went took one-third in gold and two-thirds in dollars. Had they taken it in gold, world liquidity would, says Mr Stewart, have remained unchanged. Had they taken it all in dollars, world liquidity would have risen

by \$30,000 million. Mr Stewart seems to think that such a rise in world liquidity would have been marvellous, because he criticises the French and the Germans for reducing in recent years the proportions of their reserves held in dollars and switching to gold, which "results in an actual destruction of world liquidity," since it leaves the size of the French and German reserves unchanged but reduces the size of the US reserves. With all due respect to the senior economic adviser to the Labour government, I disagree. In the 19th century the UK added to world liquidity in real values by exporting surpluses (not deficits). How can you export a deficit? A surplus country which exports capital is refraining from consuming a certain proportion from its available goods and services and is sending them to other countries to enable those countries to use them to multiply their wealth. A country in deficit is consuming more goods and services than it creates and can only do this as long as foreigners are ready to restrict their own domestic consumption to a corresponding extent. A country can justify a temporary deficit—a greater import of goods and services than it creates—if it uses those imports to multiply its own wealth, thus both enabling it to repay its creditors with interest and raise its own standard of living. But if it continues in deficit year after year it must eventually exhaust the patience or hopes of its creditors.

Mr Stewart's suggestion that had Europe taken the whole of its earnings from the USA in gold, world liquidity would have remained stationary and world trade would have receded assumes that these creditor countries would have been content to accumulate huge piles of useless gold. This is contrary to the whole record of economic history since the abandonment of the mercantile theory and the take-off of the industrial revolution. Common sense suggests that, while retaining minimum amounts as reserves, the Europeans would have exported the greater part of their surpluses, either in overseas investments or by increasing their imports of goods and services, or by a

Anatomy of the Common Market

E. B. BROOK

VIENNA:

DESPITE THE Common Market Council's refusal—owing to French non-co-operation—to consider Britain's second request to join the organisation, Britain is still very much and increasingly "in Europe". Europe—particularly French citizens—is flocking to the New Year's stores sales in London and the Market itself remains unshaken with no isolation of the French who are, in fact, doing extremely well in international trade and increasingly well in international oil development.

All of which leads to the thought that the hundreds of newspaper columns, the tensions and the slight sprouting of international ill will were a major operation in over-emphasis, led by President de Gaulle whose photogenic press conferences so epigrammatically underline the headlines. As the Dutch Foreign Minister drily observed, one cannot conduct international trade relations by press conferences. He might have added that one does no service to the simple process of seeing things straight by using such distorted phrases as "getting into Europe."

For this the British are to blame as much as most; they are now divided right across party lines into "pro-Marketeters" and "anti-Marketeters." The principal effect of this national and international agitation has been to give no small degree of over-emphasis to the Market, an institution immensely important to Europe in its wide and refreshing original ideas of internationalism through the impulse of unified economies, still the most hopeful potential in Europe but with dangerous

combination of both. The increasing reluctance of some countries to hold the rising glut of paper dollars, the future value of which they cannot help but distrust, supports my contention that they want trade in real values.

European reluctance to continue to finance the US deficit, plus the unpopularity of the Vietnam war outside and inside the USA, plus the imminence of the 1968 US presidential election, all combine to suggest the possibility that President Johnson may make tremendous efforts to end the Vietnam war—one way or another.

That would end the US balance of payments deficit. Mr Stewart considers that this would be a calamity because it would eliminate one of the biggest sources of increased world liquidity.

Unpleasant Repercussion

I do not dispute that the immediate repercussions throughout the world would be most unpleasant. But what are the alternatives? To continue to live (1) economically in conditions which perpetuate international competition in world inflation, and perpetuate the ability of US enterprises to pile up hostility to the USA by enabling them to buy up one national industry after another abroad in exchange for depreciating US treasury bills, and (2) politically in conditions which threaten a major escalation of war in south-east Asia, which could not possibly be confined to that region.

What we need is an international conference to work out a world monetary system in which rising surpluses—not deficits—form the basis of rising liquidity. And my bet is that the potential scale of world-wide calamities that could follow the elimination of the US deficit and the end of the Vietnam war will cause the major powers in Europe and North America to feel compelled seriously to debate international monetary reform plans as those of Triffin, Stamp, and Jacques Rueff.

tendencies to become a tightly knit exclusive group almost disdainful to those outside who would enter or associate.

The true nature of the Market is complex, in a sense contradictory. As envisaged by Monnet it is as true an example of international, even world, co-operation as has ever been conceived. Unlike Comintern, it is not based on the class-conflict foundations of communism; unlike the European Free Trade Association (EFTA) it is not a voluntary economic grouping that makes little inroads into national aspirations or sovereignties.

The Market is essentially a continental European concept with firm rules, expressed in the Treaty of Rome, firm regulations for putting these rules into effect, a firm intolerance of divergences. It is positive in achievement in knocking down mutual tariff borders (though EFTA has achieved this 13 months sooner), in slowly co-ordinating labour and transport regulations and other legal bases of business. It is negative in achievement in that it is coldly cautious over widening its membership, chilly to would-be associates, and altogether unsuccessful in demolishing national sovereignties in favour of a Market sovereignty which, ideally, would be inclusive of all Europe.

There are many well-informed political leaders and officials in Europe who still firmly believe it possible for Europe to be "one from the Atlantic to the Urals." They see the Market taking a more liberal line over membership once Presi-

dent de Gaulle has retired and once his insistence on French sovereignty is no longer there. They see then no difficulty in an effective link with Britain, in incorporating EFTA. They assume that the hostility of China will persuade the east European powers, including the USSR, to turn more co-operatively towards western Europe and to align, defensively, their economies with those of the Market.

With much weight of personalities behind this optimistic view and allowing for the constructiveness of optimism in contrast to the dreariness of doubt it still seems valid to raise a few queries on this idea.

Does it not over-emphasize the importance of the Common Market as that institution exists now? Does it not over-emphasize (as does also the British government) the personality of President de Gaulle? Does it not, in final analysis, embody a European daydream that has before now befogged leaders in central Europe? Is it not, in fact, an ultimate expression of the central European mind?

Dream Turned Into Reality

To attempt a reply it is necessary to see what the Market has been hitherto. It has developed from an ideal of nations reviving after the war under Marshall Aid from the USA (not so often mentioned in contemporary prosperous Europe) in the realization that their individual shattered economies would alone be weakly invalids for years to come. It was a whiff of hope, a bright prospect, a dream that revealed an opportunity. It was grasped and by dint of hard bargaining, insistently ignoring date lines and refusing to admit failure, the ideal was turned into fact with the ruthlessness of which the central European is capable for good or ill.

Having achieved economic salvation by unity, the Market countries have grown individually prosperous by internal measures, using the Market increasingly as a protection against those who are not with them. In so far as has been essential—over agricultural prices—the members have further sunk individual interests to unite, but plenty of separateness remains among them. Some of this will, no doubt, disappear but there is little reason to think that President de Gaulle is alone among leaders in Market countries in insisting on his country's political sovereignty.

Already the Market's potential of political sovereignty is dead and its advocate, the former Secretary General, Professor Hallstein, has retired into relative political obscurity. There is now no idea more fragile within the Market than overall Market sovereignty. De Gaulle may express hostility to it most forcefully because he talks so much but no one can imagine the Germans diminishing much of their sovereignty. And if ever there were sovereignties more essentially determined and reinforced by history than those of the three Benelux countries (Holland, Belgium and Luxemburg) they are not to be found in Europe.

As for eastern Europe and the Market there is no area more difficult for the socialist states and for the Comecon to trade with than the Market area. Tariffs against them are prohibitive; other obstacles obstinate and deliberate. It is a tribute to the virility and persistence of east Europe's trade, state-wise and generally, that they are able to trade with the Market at all. In so far as this position eases today it is due in no small measure to west European countries mutual competitiveness and their individual needs to win opportunities and to earn money in an expanding market. Not the least cause is their desire to be economically established in the markets of east Europe before the USA is obliged to relax its self-imposed restrictions and develop its trade with east Europe. At the moment it is French and Soviet trade expansion and oil exploitation in the Middle East that is compelling

west Europe's more amenable view of trade terms with the constituents of the larger half of this continent.

Central Europe has always toyed with the pleasant anticipation that the vast, almost alarming, land mass to the east of it would divide politically and drive its huge Slav element into the arms of its western neighbours, notably the Teutonic states. It is possible to think of two leaders of Germany in this century who have had this vision; both found it fatal. But the idea survives and may prove more durable than many more worth-while concepts.

Though there are appearances to the contrary there is reason to think that neither Moscow nor Peking will allow their recriminations and aggressions ever to come to the point of a split, much less to a conflict. If the Soviet Union seeks now to trade increasingly with, to sell its natural gas and oil to western Europe it has equally no illusions where its old historic enemies reside. Least of all would it dream of putting its economic system into anything approaching so alien a strait-jacket as the Treaty of Rome.

The importance and the potentialities of the Common Market lie within itself. At the moment it exhibits all the characteristics of the successful European businessman—shrewd, energetic, cautious and exclusive. When the Market begins to show a more forthcoming attitude to those who would merely associate with it (such as Austria and Spain), when it will even deign to reply to EFTA's suggestion of a common working arrangement towards a wider economic co-operation in Europe one can begin to think of a growing Market. Till then it is possible to think of it only as a group—prosperous but lacking the essential qualities for growth.

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Amity Through Trade Accords

BARBARA THORNHILL

WASHINGTON:

WITH PRESIDENT Johnson's signature on a proclamation last month, the United States officially announced its participation in the Kennedy Round tariff reductions. The negotiations in the Kennedy Round to a successful climax were which brought the Kennedy Round to a successful climax were but one of three international convocations in 1967 which sought to broaden co-operation among the world's peoples and to increase their prosperity. After five years of talks and bargaining, representatives of 53 nations agreed at the Kennedy Round on June 30 to cut tariff barriers. In addition 20 nations met in April to sign the historic agreement setting up a Latin American Common Market and 107 countries voted in September for a new Monetary Reserve Plan at the annual meeting of the International Monetary Fund.

The Kennedy Round negotiations—under the auspices of the General Agreement on Tariffs and Trade—involved tariff concessions on about 40,000 million dollars worth of world trade. Key elements of the package are tariff cuts of 50 per cent on a broad range of industrial goods, and cuts in the 30 to 50 per cent range on others; agricultural concessions; a world grains arrangement; non-tariff barrier liberalization, including an anti-dumping measure; and assistance to less-developed countries. Based on 1966 trade terms, the United States is cutting tariffs on about 7,500 million dollars and is obtaining concessions on about the same amount of US exports.

American negotiators agreed with other nations to supply 4.5 million tons of cereals to a multilateral food aid programme. The US share will be 42 per cent of the total, or slightly less than two million tons. As an aid to developing countries the United States made concessions which cover more than 900 million dollars of their exports. The concessions were also extended to developing nations which did not take part in the Kennedy Round. Establishment of a Latin American Common Market, agreed upon by the chiefs of state of the western hemisphere, is a key to economic growth and involvement in the world market for more than 230 million people.

Latin American Market

The American Presidents, meeting at Punta Del Este, Uruguay, in April, agreed to establish progressively, starting in 1970, a Latin American Common Market which should be in effect within 15 years. Historically, Latin American industries have operated behind tariff walls erected by duties averaging 100 per cent against imports, and therefore providing only the home country market to the industries. The Latin American Common Market arrangement aims to cut and then remove tariffs within the region, and thus promote new industries and new market opportunities inside Latin America. The western hemisphere nations already have a good start towards integration of their economic fronts.

Already established is the Central American Common Market and the Latin American Free Trade Association. The Latin American Common Market is building upon these two organizations, which are simultaneously working toward integration of their duties. The Latin American Common Market will in effect turn those nations into an economic union. In the Common Market, Brazil, for example, will trade with Chile, or other countries without tariff restrictions in the same way that, in the United States, traders in the state of California freely do business with traders in the state of New York. Yet the Latin American countries will still maintain their national policies and boundaries.

The United States strongly endorses the Latin Common

Market. Congress approved President Johnson's request for financial support by providing 300 million dollars per year for a three-year period to help Latin America attain the Common Market. For the goods and services to move easily from one country to another, the lack of transportation and communication facilities must be overcome. At the hemispheric summit meeting the Latin American countries agreed to work for the development of multi-national benefits. These include continental road projects, interconnection of electric power systems (grids), telecommunications and joint investment in air transport and such basic industries as fertilizers, pulp and paper, iron and steel and petrochemicals.

Special Drawing Rights

The third major economic move in 1967 was the unanimous vote by 107 nations for a plan to increase the world's monetary reserves. Their Financial Ministers, casting a vote at the annual meeting of the board of governors of the International Monetary Fund (IMF), approved the creation of new reserves—called Special Drawing Rights—to help gold and dollars finance international trade. The plan is the first major change in world finance since the Monetary Fund itself was established 23 years ago.

The resolution embodying an outline of the new Special Drawing Rights Scheme also requests the Fund's executive directors to study possible reforms in the world organization. The 20 executive directors have until March 31, 1968, to put the outline into legal language. This would have to be incorporated into the Monetary Fund's Articles of Agreement and its constitution. The amendment would have to be ratified by the Fund's members. When ratified, it will be the first formal amendment to the Charter since the Fund was instituted.

Once the amendment is ratified, the decision to create the new monetary reserves must still be made—generally by the managing directors of the Fund—and an 85 per cent weighted vote is required before the reserve can actually be set up. A nation's role in the world's economy determines its relative voting power. The new world money—which will amount to an international monetary fund bookkeeping measure—is intended to provide individual countries with enough reserves to ride out temporary deficits, while still pursuing liberal trade policies with other nations. Without reserves, countries would be forced, during deficit periods, to reduce their purchases from other countries. The cutbacks might be excessive, in the light of long-term trade prospects.

Leaders of the nations in the free world have hailed all these moves as examples of international co-operation. President Johnson, speaking of the monetary plan, called it "the greatest forward step in world financial co-operation" since the Fund was created. In a message to Congress on March 13, Mr Johnson said of the Latin American Common Market that "the peaceful and progressive revolution which is transforming Latin America is one of the great inspirational movements of our time. Our participation in that revolution is a worthy enterprise blending our deepest national traditions with our most responsible concepts of hemispheric solidarity." Once the three plans are fully implemented, they will have the effect of allowing the free world nations the ability to conduct international trade freely and with sufficient reserves to continue activities even in deficit times. Free trade will enhance the economic growth of the individual countries and in turn that of the world and all its people.

W. German Economy: Good Prospects for 1968

E.F.K. HAUBOLD

THE FIRST days of the new year in West Germany witnessed a boom at the stock exchange and widespread optimism in all sections of the economy. Whereas almost everybody felt unsafe only 12 months ago, businessmen and economic experts are now convinced that the country will have another economic upswing by spring of this year. The mood is backed by solid facts which indicated in the late summer of 1967 that a turn in the economy was in the offing. Consequently, the buying spree during the pre-Christmas season was considerably larger than even two years ago.

The economic experts agree that after the slow-down in 1967, the business scene is improving again. The growth rate may well be at least four per cent and might rise to around six per cent. Yet, in this margin of difference between modest and high expectations lies an economic dilemma. The IFO institute for industrial research and other expert groups recently predicted that West German business—without further government intervention—could provide the economy with a 4 to 6 per cent increase in production in 1968. But there are some factors that qualify this prediction. Among the question marks are:

1. To what degree will the abolition of the special tax deduction incentives for industrial investment discourage new rationalisation of plant and/or expansion facilities?

2. What will be the effect on trade of the devaluation of the pound?

3. In what ways will the new added-value tax affect costs?

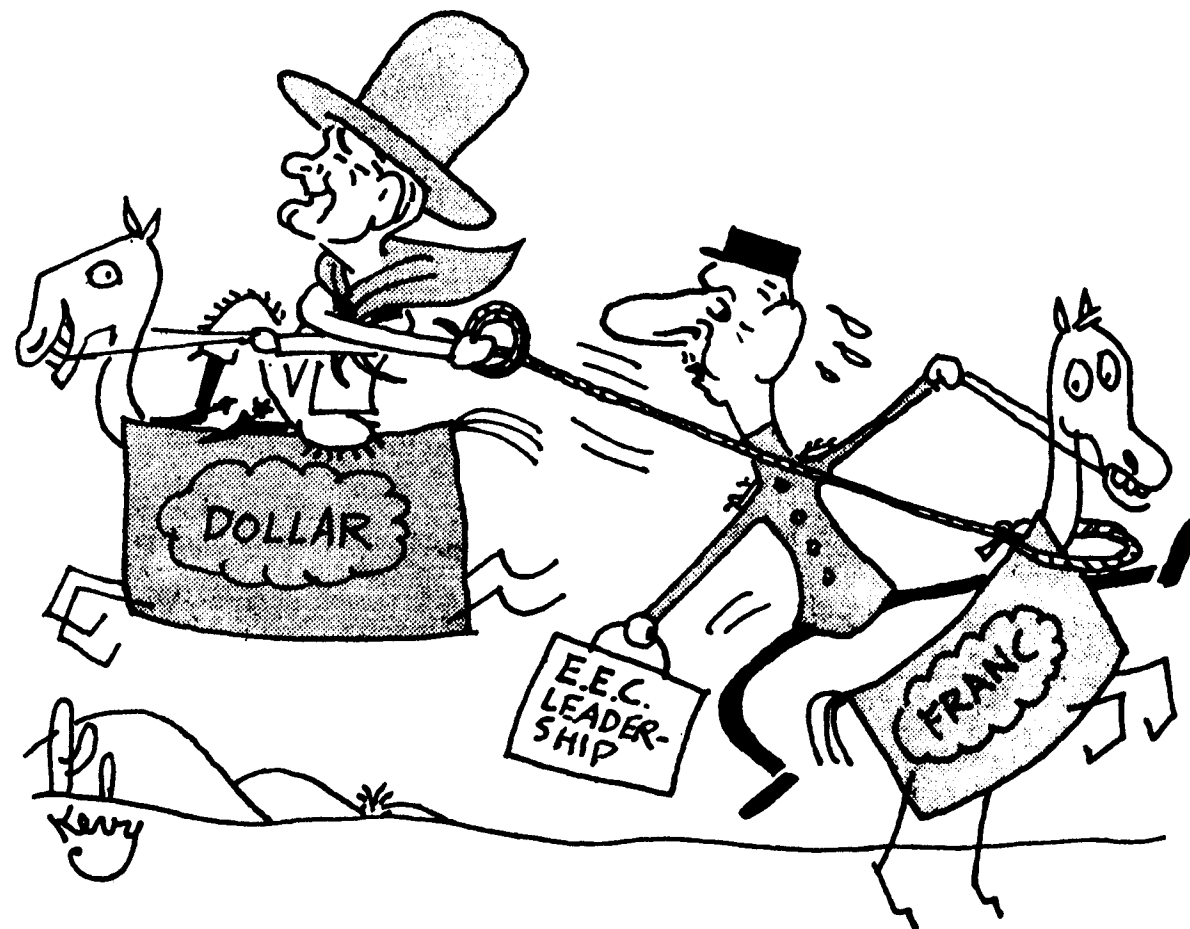
Furthermore, the independent council of economic experts that advises the government—they are commonly called "the five wise men"—believes that the West German economy will not reach the level of activity desired by 1971 unless there is 6.4 per cent growth in 1968 and 6.1 per cent growth in 1969.

Specifically, the five wise men recommend for 1968 a 30 per cent rise in public investment and a 15 per cent rise in private economic investment.

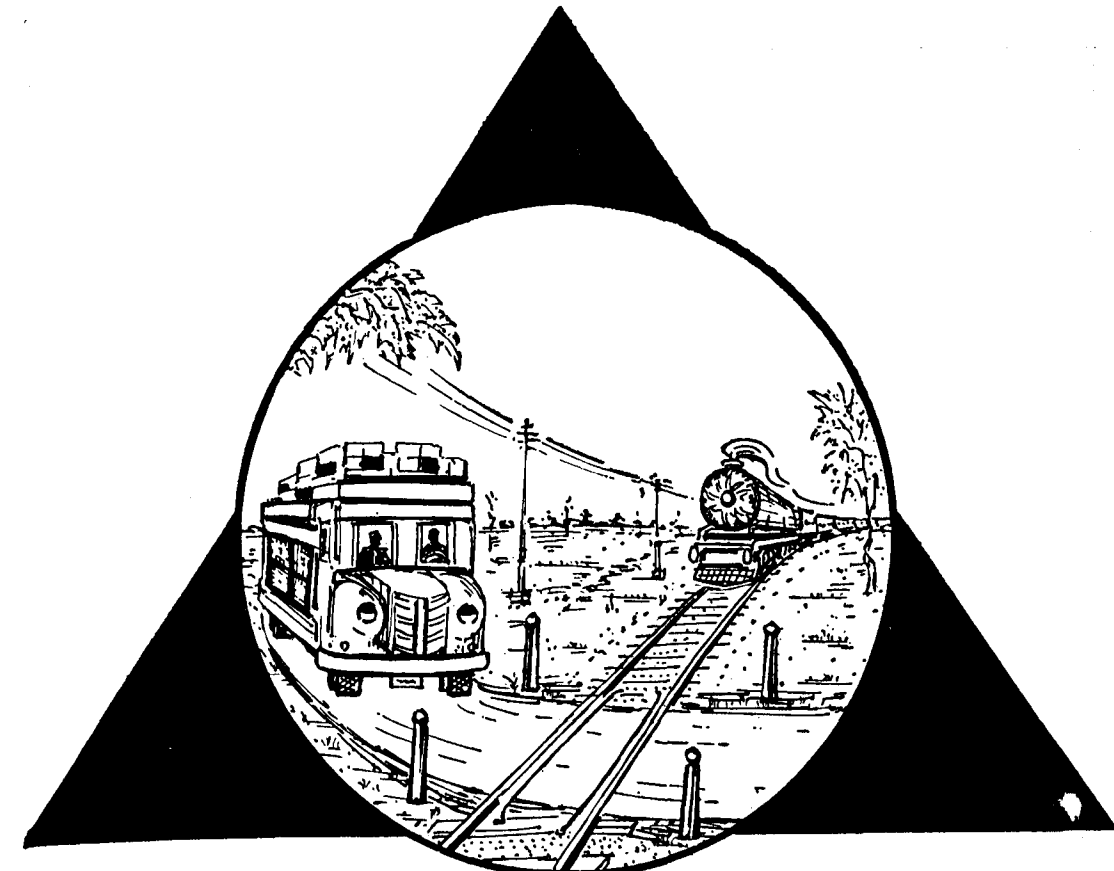
The question therefore arises whether the economy can rely on the already accelerating forces of private initiative or there should be additional public spending as well.

In the next few months, many factors of uncertainty will come to the fore, apart from the imponderable weather conditions that affect retail sales. First there is the switch over to added-value tax levied from January 1. The new system of indirect taxation will affect all branches of industry and commerce. From the surveys so far published it would seem that price changes will be kept in check, though a general rise in the cost of living can by no means be ruled out. Rents, water rates, electricity and public transport fares will inevitably become dearer.

Disposable income will also be reduced by a three per cent levy on earnings, by increasing social insurance contributions from 14 to 15 per cent of wages and salaries, increasing health insurance contributions and introducing compulsory insurance for higher bracket salary earners. Taking these indicators, the reputed Commerz Bank feels that private consumption could hardly be expected to stimulate economic activity in the immediate future. On the other hand it would seem that many entrepreneurs, after a long period of reluctance have decided to cash in on the opportunity to purchase new plant at still reasonable prices. As a result, the employment situation has definitely improved, not only in the mechanical engineering field but in the electrical and automobile engineering sectors as well. This in turn leads to an increasing feeling of security on the part of the consumers.



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The moving finger writes

THE CONGRESS party, evidently, has closed its ranks. This explains its fighting resolution defining its attitude towards other political parties, particularly those which have been using the mechanism of coalition government in the states for purposes not all of which are legitimate. The desire among Congressmen to present a solid front is also reflected in the results of the election held for the new Congress Working Committee. It seems to me that a large number of them have now got the feeling that if they do not stick together, there is every risk of their being hanged together. One desirable result of this awareness is that the lunatic left fringe of the party has been isolated and has had its meagreness exposed. It is clear that the party as such has no use for ideological tub-thumping.

The new Congress president, in his address, has given sufficient indication that his prime interest is in some much-needed administrative reform which will restore the political machinery of his party to fighting trim. I personally believe that Mr S. Nijalingappa has the right idea of priorities here, if only because it will leave him less disposed to concern himself with the affairs of the party that fall within the area of government or indeed with day-to-day functioning of the parliamentary wing. Thereby, the temptation for the kind of intriguing, which must sooner or later introduce tensions and strains into personal relationships at the top of the Congress party, will be greatly reduced as will also be the scope. I do not think that much useful purpose will be served by the speculation whether Mrs Gandhi has emerged the stronger from the annual stock-taking of her party or otherwise. For one thing, through clever manipulation of the agenda, an examination, even of the most general kind, of the government's performance in any field has been kept out of the proceedings at Lal Bahadur Nagar. The result is that the utmost that those who were not among the massed faithful could do was to air the irreverent feeling that, before the Congress was launched on a crusade to cleanse public life in our country of the disrupters and corrupters who run other political parties, the least that it itself had to do was to set its own house in order.

It used to be said of Britain's Prime Minister, Mr Harold Wilson, until his Labour party began to show the strain of post-devaluation dissensions that the only possibility of his quitting his post would have to come from his being run over by a bus. In the case of Mrs Gandhi, even such an accident may not prove decisive; considering the vacuum that exists in the leadership of the party, it is quite likely that the government will be carried on after installing a large photograph of Mrs Gandhi in the Prime Minister's office at the secretariat.

Talking of the future of the prime ministership, it may well be that when—if at all—the time comes for a change, it may not be Mr Morarji Desai, nor even Mr Chavan, who will be really in the picture. If I were a betting man, I would put some money on Dr Ram Subhag Singh. I wonder how many people realise how closely his political personality resembles the late Lal Bahadur's. Even as early as in the late 'fifties I was among those who argued that, when the time came for the selection of a successor to Jawaharlal Nehru, the party's eyes would be turned towards Lal Bahadur Shastri rather than towards anybody else—and I thought so because it was so very obvious that Lal Bahadur Shastri was the most accept-

able to the largest number of Congressmen. I suggest that Mr Ram Subhag Singh has the same quality of acceptability, although not perhaps in the same degree since there is certainly some distrust of him in the non-Hindi areas. Nevertheless, it is significant that he has managed to top the polls at virtually every party election, including the latest election to the new Congress Working Committee. Among his assets are a reputation for down-to-earthiness and a spirit of independence. Some, I believe, are of the view, however, that he is obstinate and is even apt to be pig-headed on occasions. They may not be entirely mistaken, but his recent brush with the Chief Minister of Madras in the matter of the "commemoration stamp" controversy was at least evidence that he was not one who could be taken for granted. Dr Ram Subhag Singh, I agree, is no intellectual, but then neither was Lal Bahadur; nor, for that matter, our present Prime Minister; nor, again, Mr Morarji Desai.

Coming to think of it, I wonder whether there is any place at all for intellectuals in our current political life, or indeed public life so much of which is really political. Look at what happened to poor Mr K. Santhanam, who ventured to use the term "fanatics" to describe those who wanted the medium of instruction in colleges in Madras state to be changed immediately from English to Tamil. Mr Santhanam, who was speaking at the Second International Tamil Conference in Madras, was forced to withdraw the offending word by a section of the audience which would not allow the proceedings to continue until Mr Santhanam had complied with its demand. One might say that the reaction which Mr Santhanam's expression produced was surely enough justification for his employing it. But the more interesting point is what kind of impact this spirit of intolerance is likely to make on such of us as may still have a preference for the liberal spirit in discussing public issues. Mr Santhanam, I imagine, must be a sadder and wiser man. Disillusioned for some time by certain trends in contemporary Congress politics, he has perhaps been hoping that the new political dispensation in Madras state may offer him more congenial opportunities for public work for which he is so richly endowed. It must indeed be an unpleasant experience for him that Tamil revivalism, a cause which must be dear to him, should have put on a face of fascist ugliness.

As politicians go, Mr Morarji Desai does not talk much. Even so, it may be better for him if he talks even less. At Hyderabad, for instance, he was reported to have delivered himself of this gem of a thought that it would be better for universities and colleges to close down than submit to pressure from students demanding a change in the examination paper or the removal of a professor or a vice-chancellor. This is rather odd advice since there can be no more abject form of the university authorities submitting to student blackmail than closing colleges from the fear that the agitators would not allow normal work to continue. I should have expected Mr Desai to say that the first duty of the educational authorities is to ensure that schools and colleges remain open so long as even a single law-abiding student—and I am sure that law-abiding students do constitute the bulk of the student population—wants to attend classes. He, at any rate, should be unwilling to endorse the kind of pusillanimity exhibited by the Chief Minister of Madras.

V.B.

Trade Winds

MORE CURBS ON DOLLAR

AS PART of his programme, announced on January 1 to reduce the balance of payments deficit by some \$3,000 million through overseas investment restrictions and travel curbs, President Johnson directed on January 12 the US Foreign Aid Agency to cut its overseas dollar expenditures this year by at least \$100 million as a further means of improving the American balance of payments deficit. The President has also directed the administration to: (i) reduce overseas expenditures for commodities, cash payments, technicians and other services to the bare minimum; (ii) increase the use of the US-owned local currencies in countries such as India and Pakistan where holding of those currencies were in excess of American needs; (iii) increase the contributions of aid-receiving countries in the financing of American technicians and related costs; and (iv) carefully review the numerical requirements for personnel stationed abroad paid with US funds.

CENTRAL REVENUE COLLECTIONS

The revenue realized from items on which duties are levied by the central government in the first seven months of the financial year 1967-68 amounted to Rs 1,177.32 crores. The amount for the corresponding period of 1966-67 was Rs 1,129.15 crores. The revenue realized in October 1967 was Rs 178.30 crores as against Rs 159.84 crores in October 1966. The following are the details of the revenue realized under various heads:

Revenue Heads	(Rs lakhs)			
	During October		Up to October	
	1967	1966	1967-68	1966-67
Customs	4,122	4,502	30,095	32,592
Union Excise (excluding cess on salt, rubber, coal and iron ore)	9,914	7,891	63,622	56,093
Corporation tax	1,554	1,300	11,991	12,515
Income-tax	2,050	2,082	11,181	10,892
Estate Duty	69	40	254	242
Wealth tax	93	95	301	315
Expenditure tax	—	—	(—)3	2
Gift tax	9	9	43	47
Opium	19	65	248	217
TOTAL	17,830	15,984	117,732	112,915

F.C.I.'s PROCUREMENT PROGRAMME

Operating in 14 out of 17 states, the Food Corporation of India has made elaborate arrangements to procure the maximum quantities of foodgrains during the kharif season and hopes that it would be able to procure about five million tonnes of foodgrains by the end of the season, namely March 1968. The Corporation's procurement operations are the biggest ever undertaken by any single agency in this country. During 1966-67, the capital requirements of the Corporation for undertaking various operations were of the order of Rs 33 crores. Of this, Rs 23 crores was by way of loan from the Government of India, Rs 5 crores by way of cash-credit from the State Bank of India and the balance as equity capital. As for 1967-68, it is expected that the requirements would be around Rs 179 crores, of which a major portion would be by way of cash-credit facilities from the State Bank of India. The purchase turnover during 1966-67 was over Rs 400 crores.

SHIPPING CORPORATION

The Shipping Corporation of India will shortly reach one-million ton mark with the addition to its fleet of 28 vessels. These vessels have been ordered by the Corporation from its own resources generated through a plough-back of profits. Of

the total financial outlay on March 31, 1967, about 38 per cent was provided by the capital generated by the Corporation. In 1966-67 the net revenue earnings of the Corporation in foreign exchange were estimated at Rs 14.27 crores. It made a net profit of Rs 470 lakhs last year as compared to Rs 107 lakhs in 1961-62. The Corporation has at present 47 vessels of 4.18 lakhs gross registered tonnage.

UTILISATION OF EXTERNAL ASSISTANCE

The following statement shows the amounts for which agreements have been signed, value of overseas orders placed and amounts disbursed against foreign loans and credits as on September 30, 1967:

Name of the lending country/institution	(Rs crores post-devaluation)		
	Amounts for which agreements have been signed up to 30-9-67	Value of equipment/stores ordered up to 30-9-67	Loan amount disbursed up to 30-9-67
Austria	16.88	15.13	12.47
Belgium	18.89	17.23	7.72
Bulgaria	11.25	—	—
Canada	131.86	80.62	61.06
Czechoslovakia	99.38	63.50	36.25
Denmark	7.06	6.80	5.77
Federal Republic of Germany	749.80	689.50	624.97
France	102.75	82.48	50.03
Hungary	25.00	—	—
Italy	153.01	98.83	18.53
Japan	346.09*	300.22	231.36
Netherlands	47.09	39.71	32.32
Poland	65.05	26.05	19.97
Sweden	6.96	3.17	2.40
Switzerland	36.02	25.75	18.62
United Kingdom	688.80	654.78	595.63
USA (other than PL 480)	2,394.36*	2,163.04	2,012.49
USSR	1,021.13	713.67	499.32
Yugoslavia	93.75	28.31	21.63
IBRD	767.93	651.43	635.73
IDA	666.86	582.58	538.14
TOTAL	7,449.92	6,242.80	5,424.41

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

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

Note: This statement excludes:—

1. Commodity assistance under PL 480 and PL 665;
2. Drawings from the International Monetary Fund;
3. Kuwait loan of Rs 53.84 crores and Bahrain loan of Rs 12.36 crores (post-devaluation) on account of repatriation of special Indian notes which were in circulation as legal tender in the respective countries; and
4. Grant assistance.

INDO-CEYLON TEA TALKS

The tea delegations of India and Ceylon met in Colombo early this month for a second time (the first meeting was held in New Delhi in September last). They agreed that the devaluation of the pound sterling has further underlined the need for both India and Ceylon to continue to collaborate closely with each other in evolving common policies governing the production and distribution of tea at prices considered

equitable both to the producer and the consumer. They also agreed that such collaboration would cover joint action in the fields of promotion, marketing and research for improving the economic viability of their respective tea industries as well as of international arrangements to strengthen the position of tea in world trade. The two delegations, therefore, agreed to recommend to their respective governments further action on the following concrete lines for the fulfilment of these objectives: joint action to stimulate demand for tea; joint action for the review of existing auction machinery; action to blend and packet tea and to promote sale in such forms; joint action to promote economic efficiency through research in the fields of agronomy, manufacture and marketing of tea; the feasibility of an international commodity arrangement for tea; and multi-lateral commodity transactions.

U.N. DEVELOPMENT AID

The United Nations Development Programme (UNDP) will support 24 new development projects in Asia and the Far East this year with assistance worth almost \$25 million. India's share in this assistance will be worth almost \$4 million in three new projects. These projects are (i) development of sheep husbandry in eight states through improved sheep breeding, shearing, collecting, grading and marketing of the wool; (ii) establishment of a nuclear research laboratory at Naka, in the suburbs of Bombay. The breakup of assistance of UNDP proposed to be given for these three projects is \$1.6 million, \$1.4 million and \$1 million, respectively.

I.M.F. GRANTS REPAYMENT CONCESSIONS

The International Monetary Fund has agreed to India's request for adjustments in the repayment of some of its credits. It will also accept repayment in easy instalments. Repayment of the \$187.5 million loan, drawn in April 1966 and repayable by December 31 last year, has been extended until March 1971. A stand-by arrangement of \$200 million, drawn in March 1965 and repayable in October this year, has been extended by two years to October 1970. Normally, IMF loans run for a term of three to five years. The March 1965 stand-by arrangement of \$200 million, initially for three years, but payable only in October this year after taking into account certain adjustments, is being extended by another two years to make a full five-year term.

WORLD BANK INTEREST RATE RAISED

The World Bank has raised the interest rate on its loans to developing countries from six per cent to 6.25 per cent per annum. It was announced in Washington on January 9. The first loan to carry the new rate is equivalent to \$24 million for expansion of electric generating and transmission facilities in the Sudan. The Bank has a different schedule on loans to developed countries, but has not done this type of lending in more than a year. The impetus now is towards the less developed countries.

INDO-POLISH TRADE

A trade agreement was signed last week in New Delhi between India and Poland for the year 1968. The total volume of trade between the two countries, which was of the order of Rs 7.6 crores in 1959, grew in the next seven years to Rs 27.6 crores and is estimated at Rs 40 crores, during 1967. Under the new agreement the trade between the two countries is to be increased to Rs 60 crores in 1968. The exports from Poland will consist of fishing vessels, ships' equipment, high pressure gas cylinders, capital goods, rolled steel products including special tool and alloy steel, machine tools, various chemicals, drugs and medicines, sulphur, urea (fertiliser) and zinc. The exports from India will consist of the usual agricultural based

items like coffee, tea, pepper, de-oiled cakes, tobacco, jute products and cotton waste. Besides these, Poland will also be importing from India manufactured goods like railway wagons, trucks, steel pipes and tubes, textile machinery, machine and other tools, wire ropes, wire cloth for paper industry, auto ancillaries, diesel engine castings, tyres and tubes, rayon tyre-cord, paints, varnishes and lacquers and leather footwear.

INDO-YUGOSLAV TRADE PACT

India and Yugoslavia signed in New Delhi on January 11 a programme of educational and cultural co-operation for 1968 and 1969. The programme envisages exchanges and co-operation in the fields of education, art and culture, public health, literature and publishing, films, press, radio and television and sports through visits of long-term scholarship holders, artists, art and theatre experts, lecturers, professors, writers, medical experts, exhibitions of art and craft and exchange of materials relating to history, geography and literature.

CREDIT FROM SWEDEN

A supplementary agreement to the Swedish-India agreement of June 29, 1966, was signed in Stockholm last week. The new Swedish credit of 24 million crowns will be utilised mainly for import of components for production instead of capital goods.

BUSINESS EXECUTIVES TO VISIT ITALY

A 15-member Indian team of business executives, headed by Mr G. L. Bansal, Secretary-General of the Federation of Indian Chambers of Commerce and Industry, will be visiting Italy shortly for two weeks primarily with the object of breaking new ground in our exports to that country. The export interests represented in the team are mainly cotton textiles, jute products, handlooms, handicrafts, processed and bottled spices, canned marine products, canned fruits and fresh fruits and vegetables. Representatives of the engineering industry, Hindustan Machine Tools and Hindustan Steel will also form part of the team. The members of the team will establish contacts with Italian importers and exporters and convince them about the competitiveness and quality of our goods. They will also enter into contracts and book orders.

NAPHTHA EXPORT TO JAPAN

The public sector Indian Oil Corporation has successfully finalised a contract for the export of one lakh tonnes of naphtha to Japan from Cochin at \$20 per tonne f.o.b. Cochin. Foreign exchange earnings from this contract would be about Rs 1.5 crores.

ALLUMINIUM IMPORTS

During 1967, India imported about 33,000 tonnes of aluminium, mostly of electrical conductor grade, valued at Rs 14 crores, which is a record figure in the past five years. Besides these imports being unusually large, constituting one-third of the country's total production, there is the anomalous situation of the domestic producers required to export aluminium. Already the domestic industry is compelled to work below capacity because of the slack in demand within the country.

PARLIAMENT SESSION

The budget session of both Houses of Parliament will commence on February 12. The President, Dr Zakir Husain, will address the joint sitting of the Lok Sabha and Rajya Sabha on the same day.

COAL INDUSTRY A PUBLIC UTILITY

The coal industry has been declared a public utility by the Government of India for the purposes of the Industrial Disputes Act for a further period of six months from January 8.

Company Affairs

USHA MARTIN BLACK

USHA MARTIN Black (Wire Ropes) Ltd is offering for public subscription at par 20,000 cumulative redeemable 'A' preference shares of Rs 100 each. The preference shares will carry an interest of 9.5 per cent per annum free of company's tax but subject to deduction of tax at source at the prescribed rates. The new shares will rank pari passu with the existing preference shares. The dividend for first year of issue will be paid on a pro-rata basis from the date of allotment. The entire issue has been underwritten by the LIC, UTI, New India Assurance Co. Ltd and Dalal & Sons, a leading share-broker firm in Bombay. The subscription list opens on January 22 and will close on January 29.

The company started its manufacturing operations in 1962. The items presently being manufactured by the company cover various types of steel wire ropes required by the coal mining, shipping, oil, drilling, engineering, lumber and other industries and special steel wires (such as high carbon, high tensile, mild steel, galvanised, copper coated) required by spring manufacturers and in the electrical and other specialised engineering industries. Recently the company has also started manufacturing various types of control cables for automobiles.

In keeping with its objective of diversifying its lines of production, the company intends to undertake the manufacture of locked coil wire ropes which are at present imported. On the completion of this new project, the company will have an installed capacity of 1,800 tonnes of locked coil wire ropes per annum. The factory is expected to go on stream by the second half of this year.

The Commonwealth Development Finance Co. Ltd, London, has agreed to meet the entire foreign exchange requirement of the project by granting the company a loan and by subscribing 8,750 equity shares of Rs 10 each at a premium of Rs 2 a share. The Industrial Credit and Investment Corporation of India has also granted a rupee loan to the company for meeting a part of the rupee cost of the project. The proceeds of the present issue will also be utilised for financing the expansion programme.

BASF INDIA

Basf India Ltd, an Indo-German venture, will be manufacturing for the first time in India, synthetic tanning agents which are essential to the leather industry. It proposes to issue fresh share capital and plans to increase substantially its manufacturing activities. Equity shares worth Rs 11 lakhs and preference shares of the value of Rs 8.75 lakhs will be offered to the public shortly for subscription. Ultimately, the company will have a share capital of Rs 70 lakhs—Rs 52.5 lakhs in equity and Rs 17.5 lakhs in preference—of which the West German collaborator, Badische-Anilin & Soda-fabrik A.G. will hold 50 per cent.

The company at present manufactures two products, styropor (expandable polystyrene) and Thermocole (expanded polystyrene) and also fabricates and sells machinery for the processing of expandable polystyrene as well as rendering technical service in the chemical field. Under the trade mark Thermocole, the company's polystyrene foam has become widely known throughout the country and has completely replaced cork as an insulation material. It is widely used for insulation of cold storages, in the petrochemical industry for conventional and atomic power plants, railway vans, air-conditioned buildings and refrigerators. With good floating properties, the product is being used for fishing nets, life belts and buoys. Its cushioning properties make it an excellent packaging material for sophisticated goods such as transistors, sewing machines, fans, instruments and radio tubes.

A new plant will be set up by the company in the Thana-

Belapur area in Bombay for the manufacture of styropor with a capacity of 2400 tonnes per year. This will be the first step in the expansion programme. The new unit will be commissioned in the second half of this year. Another plant for making tanning agents is expected to go on stream by the middle of the current year. Tanning agents will be sold under the trade name 'Basynthan'. The present turnover amounting to Rs 1 crore is expected to touch Rs 2 crores by the time all the new products are introduced in the market.

The capital investment in the project is placed around Rs 1.10 crores with a foreign exchange component of Rs 35 lakhs which will be met by BASF, West Germany. The West German firm will also provide the know-how, design and other technical information for the manufacture of new products. Furthermore they will impart technical training in West Germany to the personnel of Basf India Ltd, and will make available German experts when required by the Indian company.

RICHARDSON HINDUSTAN

Richardson Hindustan Ltd has reported encouraging working results during the year ended June 30, 1967—the first year of its commercial operations. Sales during the year were of the order of Rs 133.28 lakhs. Gross profit during 1966-67 amounted to Rs 33.52 lakhs as against a loss of Rs 6.22 lakhs in the preceding year. The directors have, however, decided not to recommend any dividend for the year under review.

Depreciation was earmarked with Rs 11.40 lakhs as compared with Rs 45.483 in 1965-66. The development rebate reserve was appropriated with Rs 11.74 lakhs as against no provision in the previous year while the share issue expenses claimed Rs 2.45 lakhs as against nothing in the preceding year. The net profit, after making these allotments, came to Rs 7.93 lakhs as against a net loss of Rs 6.67 lakhs a year ago. After adjusting accumulated loss, a credit balance of Rs 1 lakh has been carried forward. The directors expect that the company should be able to pay a reasonable dividend out of the current year's earnings the second of its operations as mentioned in the prospectus at the time of public issue.

The company's manufacturing facilities at Kulwa commenced operations on July 1, 1966, and it has produced the world-famous household remedies for coughs and cold. In May 1967, the company introduced 'Clearasil', a pimple cream. During the year, it produced menthol from locally grown mentha arvensis. Currently the company is producing menthol adequate enough to meet its requirements and expects to have a surplus for sale in the near future. The company's profitability is likely to be considerably enhanced when it sets up the two new divisions viz. Merrel division for marketing of ethical products and Milton division for dealing in specialities for home hygiene and health.

ESCORTS

Escorts Ltd is understood to have obtained the sanction of the Controller of Capital Issues for issue of 387,072 fully paid-up equity shares of Rs 10 each as bonus shares by capitalising Rs 38.70 lakhs from the company's general reserve. This will work out to one bonus share for every five equity shares held. The total paid-up capital after the issue of bonus shares will amount to Rs 387.47 lakhs.

INDIAN IRON

The Indian Iron and Steel Co. Ltd, perhaps for the first time in its history, has started accepting fixed deposits from the public. The company has offered an eight per cent rate of interest for deposits of 12 months or over but less than 24 months and the minimum amount stipulated is Rs 2,500. The rate of interest is marginally higher at 8.5 per cent per

annum for deposits kept with the company for 24 months or over. Some of the major share-broker firms in Bombay have received the company's fixed deposits rules, which are effective from January 1, 1968. The company's paid-up capital and free reserves, as on March 31, 1967, amounted to about Rs 64 crores and hence the company could receive deposits from the public up to Rs 16 crores. It is quite likely that the company would like to tap as much money as possible from this source.

TATA OIL MILLS

The recent public issue of 35,000 (9.3 per cent) cumulative redeemable (A) preference shares of Rs 100 each by the Tata Oil Mills Co. Ltd, has been substantially oversubscribed. Against the offer of Rs 35 lakhs, the company has received applications for Rs 68.64 lakhs. The basis for allotment of new preference shares has been decided as follows: full allotment for 5 to 10 shares applied, 75 per cent for 15 to 20 shares, 60 per cent for 25 to 100 shares, 50 per cent for 105 shares, 40 per cent for 405 to 500 shares, 30 per cent for 505 to 1,000 shares, 25 per cent for 1,005 to 2,500 shares for 505 to 1,000 shares, 25 per cent for 1,005 to 2,500 shares and 20 per cent for 2,505 shares and above. According to the recent issue of 224,240 equity shares of company sources, the new preference shares will rank for dividend from January 1, 1968.

DENA BANK

The directors of Dena Bank Ltd have declared a final dividend of Rs 4 per equity share for 1967. This together with the interim dividend of Rs 2 per share, brings the total dividend for the year to Rs 6 per share of Rs 50 each or 12 per cent, the same as in 1966.

During the year the bank has earned a higher net profit of Rs 33.03 lakhs, subject to audit, as compared with Rs 31.20 lakhs in 1966. Adding the amount brought in, the total amount available for appropriation came to Rs 33.46 lakhs. The directors have maintained the allocation to reserves at Rs 10 lakhs. The dividend, interim and final, will absorb Rs 15 lakhs, the same as in the previous year. The balance of Rs 8.46 lakhs, subject to payment of bonus to staff, has been carried forward.

The bank's deposits have crossed the Rs 100-crore mark and it stood at an all-time high of Rs 101 crores at the end of 1967 as compared with Rs 95 crores in the preceding year. The number of accounts increased from 4.75 lakhs to 5.30 lakhs. Advances went up by Rs 6 crores to Rs 64 crores while working funds stood as high as Rs 110 crores as against Rs 104 crores in the preceding year. The bank had 136 offices at the end of 1967 as against 174 at the end of 1966.

BHARAT STEEL TUBES

Bharat Steel Tubes Ltd proposes to enter the capital market shortly with an issue of Rs 30 lakhs in equity and preference shares to provide additional funds for working capital to increase its production. The company has shown good progress during 1967. It has achieved a sales turnover of Rs 6.75 crores during the year ended December 31, 1967, against the total sales of Rs 2.56 crores in 1966. The production of steel tubes and pipes, black and galvanized, was of the order of 42,700 tonnes in 1967 against single shift annual capacity of 36,000 tonnes. The most outstanding feature of the company's operations has been that 25 per cent of the total production has been exported. The total value of exports is about Rs 1.90 crores as against Rs 59.43 lakhs in 1966. The company has exported its products to various countries including the sophisticated markets of Australia, the UK and the USA. The company has very substantial export commitments in hand and the management is confident of showing still better results in 1968. The company has also started the manufacture of tubular poles for which there is a big

demand from power supply schemes in the country. To diversify its products, the management is installing a plant for normalizing steel tubes as there is a very big demand in foreign markets for normalized tubes. The company is also installing direct pull drabench with a view to meeting the demand from manufacturers of boilers, cycles and furniture.

SHREE GOPAL PAPER MILLS

The directors of Shree Gopal Paper Mills Ltd and the Ballarpur Paper Straw Board Mills Ltd have decided to recommend to the shareholders the merger of the two mills. According to the proposal Shree Gopal Paper equity shares will be converted into Ballarpur equity shares on one-for-one basis. The ratio of preference share conversion will be finalised in consultation with institutional holders. Both the companies belong to the Karamchand Thapar group. The merger is likely to yield economies in operation.

NEW REGISTRATIONS

Eighty-three companies were registered under the Companies Act, 1956, in November 1967. Three of these are large-sized companies, each having an authorised capital of Rs. 50 lakhs or more. They are the Sharda Sugar and Industries Limited which is registered in Maharashtra as a public limited company for manufacturing and dealing in sugar and sugarcane; the Eastern Oxygen and Acetylene Private Limited in Madhya Pradesh for compressing oxygen, hydrogen and carbonic acid; and the Hindustan Copper Private Limited—a government concern floated in Rajasthan with a view to taking over from the National Mineral Development Corporation Limited—a government undertaking—all the plants, project schemes and especially the Khetri Koliha copper project.

Of the 83 companies, three are limited by guarantee and 80, including a government company, are limited by shares.

The eighty companies, limited by shares, comprised three public limited and 73 private limited ones, having aggregate authorised capital of Rs. 2.04 crores and Rs. 53.26 crores respectively. Of the 80 companies limited by shares, three would engage themselves in agriculture and allied activities; four in mining and quarrying; 38 in processing and manufacture; eleven in trading; 15 in financial business and nine in other miscellaneous activities.

Out of the 80 companies limited by shares, 15 each were registered in West Bengal and Maharashtra and 10 in Delhi and the rest 40 companies in other states ranging between eight companies in Andhra Pradesh and one in Madhya Pradesh. Of these eighty companies, 25 were proposed to be managed by the "managing director" and 55 preferred "board of directors" form of management.

In October, 1967, 100 companies were registered under the Companies Act, of which 94 were limited by shares and six limited by guarantee. The 94 companies limited by shares comprised two public and 92 private limited companies. The aggregate authorised capital of the two public companies in Rs 0.11 crore and of the 92 private limited companies it is Rs. 3.94 crores.

CAPITAL AND BONUS ISSUES

Consent has been accorded to nine companies to raise capital amounting to more than Rs. 3.82 crores. Seven of them are to issue bonus shares exceeding Rs 1.60 crores. The amount of bonus shares ranges between Rs 1.40 lakhs and Rs 93.70 lakhs. The consents are valid for 12 months. The details are as follows:

Calcutta Discount Co., Ltd, Calcutta, has been accorded

consent to capitalise Rs 93,70,900 from general reserve and issue fully-paid bonus shares.

Kirloskar Brothers Ltd, Bombay, has been granted consent to capitalise Rs 20,28,475 out of general reserve and issue fully-paid equity shares of Rs 25 each as bonus shares in the ratio of one bonus share for every five equity shares held.

T. Stanes & Co., Ltd, Coimbatore, has been given consent to capitalise Rs 11,56,300 out of free reserve and issue fully-paid equity shares of Rs 10 each as bonus shares in the ratio of one for one held.

Birpara Tea Co., Ltd, Calcutta, is permitted to capitalise Rs 7,92,000 from revenue reserve and issue fully-paid bonus shares in the ratio of one for five held.

Tinnevelly Motor Service Co., (Private) Ltd, Madras, is allowed to capitalise Rs 1,92,900 out of free reserve and issue 1,929 bonus shares of Rs 100 each in the ratio of two for five held.

Gokal Enterprise Private Ltd, Bombay, has been accorded consent to capitalise Rs 1.40 lakhs out of general reserve. The amount will be utilised for increasing the paid-up value of 3,500 equity shares of Rs 100 each from Rs 20 to Rs 60 per share.

Hyderabad Asbestos Cements Products Ltd, Hyderabad, is allowed to capitalise general reserve to the extent of Rs 23,61,300 and issue bonus shares of Rs 10 each in the proportion of one for one held and also to issue for cash at par further capital of Rs 57,11,300 consisting of 2,36,130 equity shares of Rs 10 each and 23,500 preference shares of Rs 100 each carrying dividend at 9.5 per cent.

Shreenivas Cotton Mills Ltd, Bombay, is permitted to issue Rs 40 lakhs for cash at par to be offered to the public in debentures of Rs 1,000 each, carrying interest at 7.75 per cent for renovation and modernisation of plant and machinery.

Mahindra & Mahindra Ltd, Bombay, is also permitted to issue Rs 1.25 crores for cash at par in debentures of Rs 1,000 each carrying interest at 7.75 per cent. The proceeds will be utilised for financing expansion programme of the company.

LICENCES AND LETTERS OF INTENT

The following licences and letters of intent were issued under the Industries (Development & Regulation) Act, 1951 during the fortnight ended November 11, 1967. The list contains the names and addresses of the licensees, articles of manufacture, type of licences—New Article (N.A.); New Undertaking (N.U.); Substantial Expansion (S.E.); Carry on Business (C.O.B.); shifting—and annual installed capacity.

During the Week ended November 4, 1967

LICENCES ISSUED

Special Steel

M/s Firth Sterling Steel Co. of India Ltd, "Sahib Building" 4th Floor, 195, Dr Dadabhai Naoroji Road, Bombay-1. (Bombay, Maharashtra): Alloy steel excluding stainless steel—5,400 tonnes. (S.E.).

Boilers and Steam Generating Plant

M/s Industrial & Agricultural Engg. Co. (Bombay) Pvt. Ltd, 43, Forbes Street, Fort, Bombay-1. (Bhandup, Maharashtra): Steam Condensers for thermal Power Stations—Capacity will be assessed after one year. (N.A.).

Internal Combustion Engines

The Managing Director, M/s Garden Reach Workshops Limited, 43/46, Garden Reach, Calcutta-24. (Ranchi, Bihar): M. A. N. Diesel Engines: Type Kz/78/155E—8 nos; Type GV/30/45A—60 nos; Type RV/16/18T—100 nos. (N.U.).

Automobiles

M/s Gajra Gears, Elve Chambers, Green Street, Fort, Bombay-1. (Dewas, Madhya Pradesh): Automobile gears—400 tons; Gear for diesel oil engines & tractors—600 tons; Industrial gears

—100 tons; Fibre gears for automobiles—60,000 pieces; Starter Pinions for automobiles—1,00,000 pieces; Components for automobiles and diesel engines—100 tons. (N.U.).

Conveying Equipments

M/s Triveni Structural Limited, 5th Floor, Jeevan Bihar, Parliament Street, New Delhi-1. (Naini, Allahabad, U.P.): Construction of Reverse Pressure vessels—1000 tonnes; Crucible Blast Furnaces and Plate work—2,000 tonnes; Cranes and Mechanical Equipment—1,000 tonnes. (N.U.).

Air Conditioners & Refrigerators

M/s I.B.M. World Trade Corporation, Nehru House, 4, Bahadur Shah Zafar Marg, New Delhi. (Andheri, Maharashtra): New Key Punches Type 029—4000 nos. (S.E.).

Dyestuffs

M/s Amar Dye Chem Ltd, Rang Udyan, Sitaladevi Temple Road, Mahim, Bombay-16. (Bombay, Maharashtra): Diamisidine—100 tonnes; Ortho Tolidine—150 tonnes. (S.E.).

Drugs & Pharmaceuticals

M/s Glaxo Laboratories (India) Pvt. Ltd, Dr Annie Besant Road, Worli, Bombay-18. (Bombay, Maharashtra): Betnovate/N Lotion—480 litres. (N.A.); M/s Alembic Chemical Works Co. Ltd, Alembic Road, Baroda. (Gujarat): Monorin tablets—50 lakh tablets. (S.E.).

LETTERS OF INTENT

Electrical Equipment

M/s Andrew Yule & Co. Ltd, 8, Clive Row, Calcutta. (West Bengal): L. T. Flame proof switchgears—approximately 2650 units. (N.U.).

Telecommunications

M/s Murphy India Ltd, Dr Shirodkar Road, Off. Hospital Avenue, Parel, Bombay-12 (DD). (Maharashtra): Radio Receivers—From 80,000 Nos. to 2,00,000 Nos. (S.E.); M/s National Ekco Radio & Engg. Co., Ltd, Ewart House, Bruce St., Fort.

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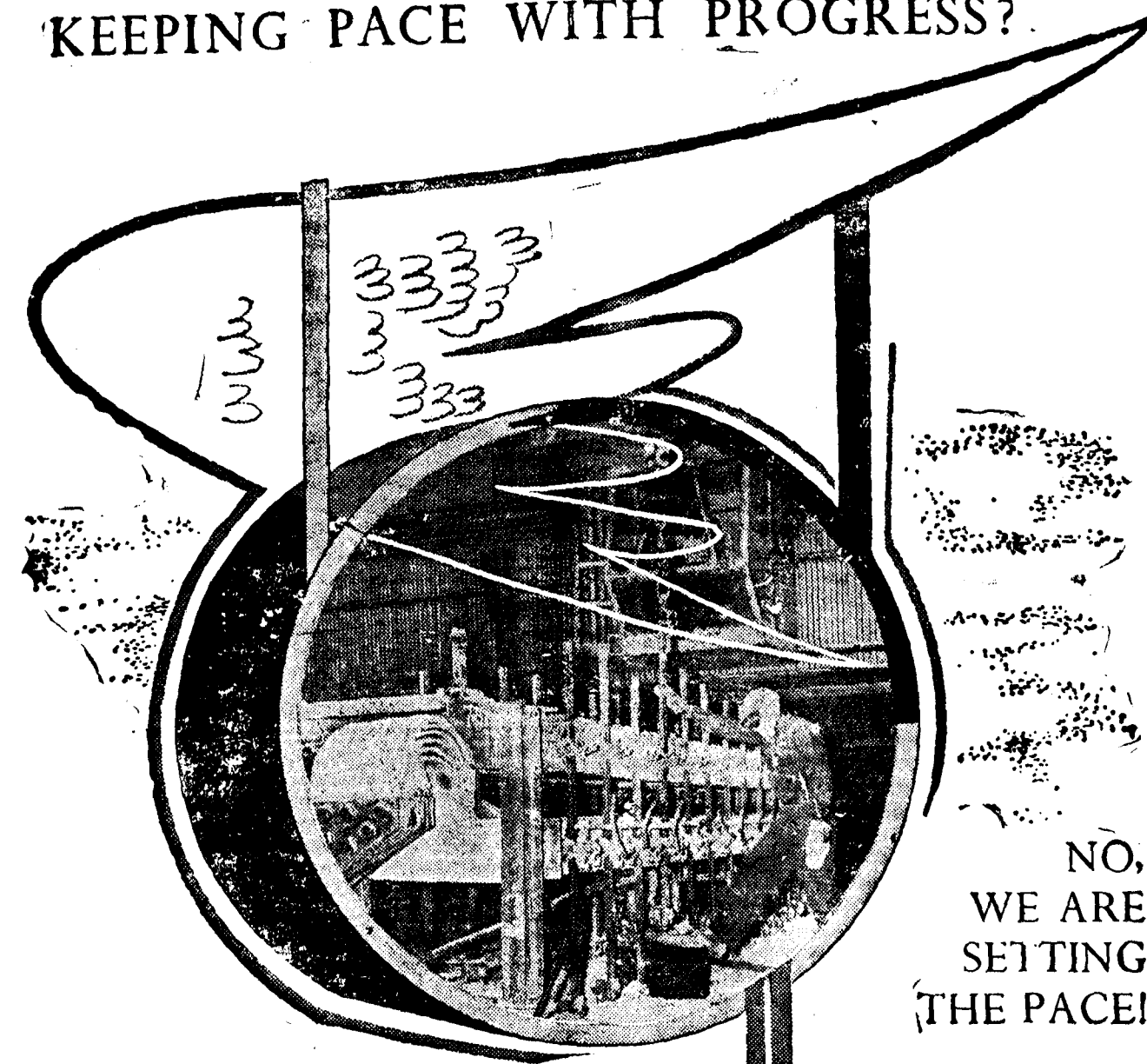
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Bombay-1. (Maharashtra): Radio Receivers—From 80,000 Nos. to 1,20,000 Nos. (S.E.).

Machine Tools

M/s Kumardhubi Engineering Works Ltd, Chartered Bank Building, Calcutta-1. (Kumardhubi, District Dhanbad, Bihar): Mechanical and Hydraulic Presses (40 tons, 100 tons, and 160 tons capacity)—34 Nos. (N.A.).

Engineering Industries

Shri P. Kumar, Industrial Estate, Lalbaugh, Bombay-12. (Nagar Road, Poona, Maharashtra): Chasers—48,000 sets; Thread Rolling Dies—21,000 sets; Reamers—18,000 Nos.; Taps—27,000 Nos.; Thread Plug Gauges—8,000 Nos. (N.U.).

Chemicals

M/s Indo-Nippon Chemical Co. Ltd, Alice Building, Dr D. Naroji Road, Fort, Bombay-1-BR. (Koyali, Gujarat or Madras, Maharashtra State): Phthalate Plasticisers—5000 tonnes. (N.U.).

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

M/s Octavius Steel & Co. Ltd, Calcutta—Air Break Switches and Fuses; M/s Hy-Flu Components Limited, Calcutta—Flexible Hose Lines; Shri D. D. Shah, Bombay—E.O.T. Cranes; Shri T. N. M. Arunachalam Mylapore, Madras—Cotton yarn; M/s Muthukamarappa Spinning Mills (Private) Ltd, Pondicherry—Cotton yarn; M/s Ratanlal and Co. Bhatinda—Cotton yarn; M/s The Kirlampudi Sugar Mills Limited, Pithampuram, Distt. East Godavary—Sugar.

During the Week ended November 11, 1967

LICENCES ISSUED

Iron & Steel

Dr Ing. Motilal Saha, C/o The Durgapur Iron Works Ltd, 6, Middleton Street, Calcutta-16. (Durgapur, Dt. Burdwan, West Bengal): Pig Iron—50,000 tonnes. (N.U.).

Other Products of Iron & Steel

M/s Fit Tight Nuts & Bolts Ltd, Old Ashram, Andheri-Kurla Road, Andheri, Bombay-69. (Sanand, Gujarat State): High Tensile Bolts & Nuts—2000 tonnes. (S.E.).

Television Sets

M/s J. K. Electronics, Kamla Tower, Kanpur (Kanpur, Uttar Pradesh): Television Receiving Sets—10,000 Nos. (N.U.); M/s Telerad Private Ltd, Atlas Mills, Reay Road, Bombay-10. (Bombay, Maharashtra): Television Receiving sets—10,000 Nos. (N.U.).

Automobiles

M/s Globe Auto Electricals Limited, (Local address) A-355, Defence Colony, New Delhi-3. (Bombay, Maharashtra): Starter drives for automobiles—50,000 Nos. (N.A.).

Calculating Machines

M/s I.B.M. World Trade Corporation, Nehru House, 4, Bahadur Shah Zafar Marg, New Delhi. (Andheri, Maharashtra): Computer system 1401 series—22 Nos. in 1968; 22 Nos. in 1969; 24 Nos. in 1970. (S.E.).

Synthetic Resins & Plastics

M/s Dr Beck & Co. (India) Ltd, Plot No. 147, Bombay-Poona Road, Pimpri Penicillin Factory, P.O. Pimpri, Poona-18 (Maharashtra State): Synthetic Resins—2,500 tonnes. (S.E.).

Processed Foods

M/s Maize Products, P.O. Kathwada Maize Products, Ahmedabad-2. (Ahmedabad, Gujarat State): Bacterial Amylase; Bacterial Protease—0.40 Mill. gallons fermenter on normal concentration basis. (N.A.).

LETTERS OF INTENT

Electrical Equipment

M/s Best & Co. Pvt. Ltd, 13/15, North Beach Road, P.B. No. 63, Madras-1. (Madras State): Cinema Arc Carbons—1.8

million pairs (3 million pairs per annum after expansion). (S.E.); M/s Hind Lamps Ltd, Shikohabad (Uttar Pradesh): Caps for Electrical Lamps: Lamp Caps Type E-27/27/and/or E-27/50—10 million nos; B-22 and 22—3.4 million nos; 3-Pin Bayonet—0.1 million nos. (N.A.).

Industrial Machinery

M/s Utkal Machinery Limited, Post Office Kansbahal, Near Rourkela, (Kansbahal, Orissa): Tower Cranes with carrying capacity ranging from 11 tonne metre to 60 tonne metre—50 Nos. (N.A.).

Mechanical and Engineering Industries

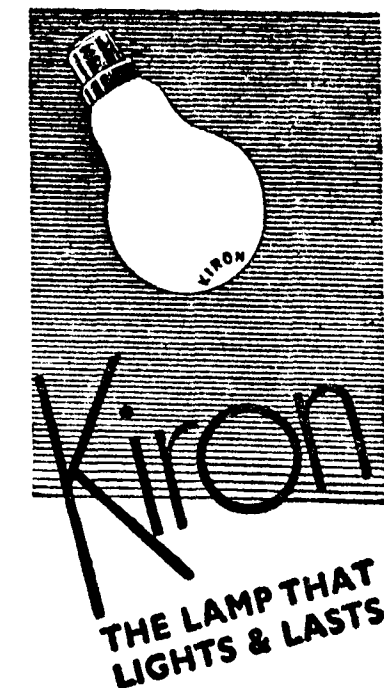
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US President's Statement on Balance of Payments

THE WHITE House Press Centre on Monday, January 1, 1968, released the following statement by President Johnson:

I want to discuss with the American people a subject of vital concern to the economic health and well-being of this nation and the free world. It is our international balance of payments position. The strength of our dollar depends on the strength of that position. The soundness of the free world monetary system, which rests largely on the dollar, also depends on the strength of that position. To the average citizen, the balance of payments, and the strength of the dollar and of the international monetary system, are meaningless phrases. They seem to have little relevance to our daily lives. Yet their consequences touch us all—consumer and captain of industry, worker, farmer, and financiers.

More than ever before, the economy of each nation is today deeply intertwined with that of every other. A vast network of world trade and financial transactions ties us all together. The prosperity of every economy rests on that of every other. More than ever before, this is one world—in economic affairs as in every other way.

Your job, the prosperity of your farm or business, depends directly or indirectly on what happens in Europe, Asia, Latin America, or Africa. The health of the international economic system rests on a sound international money in the same way as the health of our domestic money. Today, our domestic money—the US dollar—is also the money most used in international transactions. That money can be sound at home—as it surely is—yet can be in trouble abroad—as it now threatens to become. In the final analysis its strength abroad depends on our earning abroad about as many dollars as we send abroad. US dollars flow from these shores for many reasons—to pay for imports and travel, to finance loans and investments and to maintain our lines of defence around the world. When that outflow is greater than our earnings and credits from foreign nations a deficit results in our international accounts.

Threat to Dollar

For 17 of the last 18 years we have had such deficits. For a time those deficits were needed to help the world recover from the ravages of World War II. They could be tolerated in the United States and welcomed by the rest of the world. They distributed more equitably the world's monetary gold reserves and supplemented them with dollars. Once recovery was assured, however, large deficits were no longer needed and indeed began to threaten the strength of the dollar. Since 1961, your government has worked to reduce that deficit. By the middle of the decade, we could see signs of success. Our annual deficit had been reduced two-thirds—from 3.9 billion dollars in 1960 to 1.3 billion dollars in 1965. In 1966, because of our increased responsibility to arm and supply our men in south-east Asia, progress was interrupted, with the deficit remaining at the same level as 1965—about 1.3 billion dollars.

In 1967, progress was revised for a number of reasons:

- Our costs for Vietnam increased further.
- Private loans and investments abroad increased.
- Our trade surplus, although larger than 1966, did not rise as much as we had expected.
- Americans spent more on travel abroad.

Added to these factors was the uncertainty and unrest

surrounding the devaluation of the British pound. This event strained the international monetary system. It sharply increased our balance of payments deficit and our gold sales in the last quarter of 1967. Preliminary reports indicated that these conditions may result in a 1967 balance of payments deficit in the area of 3.5 to 4 billion dollars—the highest since 1960. Although some factors affecting our deficit will be more favourable in 1968, my advisers and I are convinced that we must act to bring about a decisive improvement. We cannot tolerate a deficit that could threaten the stability of the international monetary system—of which the US dollar is the bulwark. We cannot tolerate a deficit that could endanger the strength of the entire free world economy, and thereby threaten our unprecedented prosperity at home.

Decisive Action

The time has now come for decisive action designed to bring our balance of payment to—or close to—equilibrium in the year ahead. The need for action is a national and international responsibility of the highest priority. I am proposing a programme which will meet this critical need, and at the same time satisfy your essential conditions:

—Sustain the growth, strength and prosperity of our own economy.

—Allow us to continue to meet our international responsibilities in defence of freedom, in promoting world trade, and in encouraging economic growth in the developing countries.

—Engage the co-operation of other free nations, whose stake in a sound international monetary system is no less compelling than our own.

—Recognize the special obligation of those nations with balance of payments surpluses, to bring their payments in equilibrium.

The first line of defence of the dollar is the strength of the American economy. No business before the returning Congress will be more urgent than this: To enact the anti-inflation tax which I have sought for almost a year. Coupled with our expenditure controls and appropriate monetary policy, this will help to stem the inflationary pressures which now threaten our economic prosperity and our trade surplus. No challenge before business and labour is more urgent than this: To exercise the utmost responsibility in their wage-price decisions, which affect so directly our competitive position at home and in world markets. I have directed the Secretaries of Commerce and Labour to work with unions and companies to prevent our exports from being reduced or our imports increased by crippling work stoppages in the year ahead. A sure way to instill confidence in our dollar—both here and abroad—is through these actions.

But we must go beyond this, and take additional action to deal with the balance of payments deficit. Some of the elements in the programme I propose will have a temporary but immediate effect. Others will be on longer range. All are necessary to assure confidence in the American dollar.

1. Direct Investment

Over the past three years, American business has co-operated with the government in voluntary programme to moderate the flow of US dollars into foreign investments. Business leaders who have participated so wholeheartedly deserve the appreciation of their country. But the savings now required in foreign investment outlays are clearly beyond the reach of any voluntary programme. This is the unanimous view of

all my economic and financial advisers and the Chairman of the Federal Reserve Board. To reduce our balance of payments deficit by at least one billion dollars in 1968 from the estimated 1967 level, I am invoking my authority under the banking laws to establish a mandatory programme that will restrain direct investment abroad. This programme will be effective immediately. It will insure success and guarantee fairness among American business firms with overseas investments.

The programme will be administered by the Department of Commerce, and will operate as follows:

— As in the voluntary programme, over-all and individual company targets will be set. Authorizations to exceed these targets will be issued only in exceptional circumstances.

— New direct investment outflows to countries in continental western Europe and other developed nations not heavily dependent on our capital will be stopped in 1968. Problems arising from work already in process or commitments under binding contracts will receive special consideration.

— New investments in other developed countries will be limited to 65 per cent of the 1965-66 average.

— New net investments in the developing countries will be limited to 110 per cent of the 1965-66 average.

This programme also requires business to continue to bring back foreign earnings to the United States in line with their own 1964-66 practices. In addition, I have directed the Secretary of the Treasury to explore with the Chairman of the House Ways and Means Committee and Senate Finance Committee legislative proposals to induce or encourage the repatriation of accumulated earnings by US-owned foreign businesses.

2. Lending by Financial Institutions

To reduce the balance of payments deficit by at least another 500 million dollars, I have requested and authorized the Federal Reserve Board to tighten its programme restraining foreign lending by banks and other financial institutions. Chairman Martin has assured me that this reduction can be achieved:

— Without harming the financing of our exports;

— Primarily out of credits to developed countries without jeopardizing the availability of funds to the rest of the world.

Chairman Martin believes that this objective can be met through continued co-operation by the financial community. At the request of the chairman, however, I have given the Federal Reserve Board standby authority to invoke mandatory controls, should such controls become desirable or necessary.

3. Travel Abroad

Our travel deficit this year will exceed 2 billion dollars. To reduce this deficit by 500 million dollars:

— I am asking the American people to defer for the next two years all non-essential travel outside the Western Hemisphere.

— I am asking the Secretary of the Treasury to explore with the appropriate Congressional committees legislation to help achieve this objective.

4. Government Expenditures Overseas.

We cannot forgo our essential commitments abroad, on which America's security and survival depend. Nevertheless, we must take every step to reduce their impact on our balance of payments without endangering our security. Recently, we

have reached important agreements with some of our NATO partners to lessen the balance of payments cost of deploying American forces on the continent—troops necessarily stationed there for the common defence of all. Over the past three years, a stringent programme has saved billions of dollars in foreign exchange. I am convinced that much more can be done. I believe we should set as our target avoiding a drain of another 500 million dollars on our balance of payments. To this end, I am taking three steps.

First, I have directed the Secretary of State to initiate prompt negotiations with our NATO allies to minimize the foreign exchange costs of keeping our troops in Europe. Our allies can help in a number of ways, including:

— The purchase in the US of more of their defence needs.

— Investments in long-term United States securities.

I have also directed the Secretaries of State, Treasury and Defence to find similar ways of dealing with this problem in other parts of the world.

Second, I have instructed the Director of the Budget to find ways of reducing the numbers of American civilians working overseas.

Third, I have instructed the Secretary of Defence to find ways to reduce further the foreign exchange impact of personal spending by US forces and their dependents in Europe.

5. Export Increases

American exports provide an important source of earnings for our businessmen and jobs for our workers. They are the cornerstone of our balance of payments position. Last year we sold abroad 30 billion dollars worth of American goods. What we now need is a long-range systematic programme to stimulate the flow of the products of our factories and farms into overseas markets. We must begin now.

Some of the steps require legislation. I shall ask the Congress to support an intensified five-year, 200 million dollar Commerce Department programme to promote the sale of American goods overseas. I shall also ask the Congress to earmark 500 million dollars of the Export-Import Bank authorization to:

— Provide better export insurance.

— Expand guarantees for export financing.

— Broaden the scope of government financing of our exports.

Other measures require no legislation.

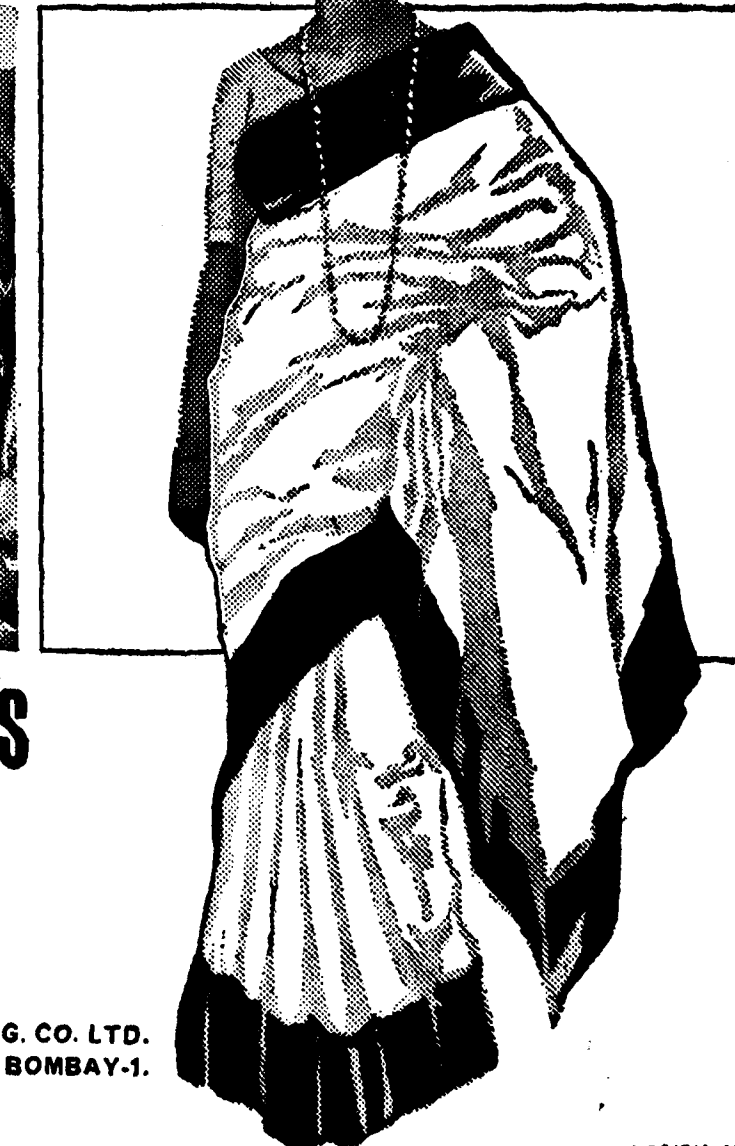
I have today directed the Secretary of Commerce to begin a joint export association programme. Through these associations, we will provide direct financial support to American corporations joining together to sell abroad. And finally, the Export-Import Bank—through a more liberal rediscount system—will encourage banks across the nation to help firms increase their exports.

6. Non-Tariff Barriers

In the Kennedy Round we climaxed three decades of intensive effort to achieve the greatest reduction in tariff barriers in all the history of trade negotiations. Trade liberalization remains the basic policy of the United States. We must now look beyond the great success of the Kennedy Round to the problems of non-tariff barriers that pose a continued threat to the growth of world trade and to our competitive position. American commerce is at a disadvantage because of the tax systems of some of our trading partners. Some nations give across-the-board tax rebates on exports which leave their ports and impose special border tax charges on our goods

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entering their country. International rules govern these special taxes under the General Agreement on Tariffs and Trade. These rules must be adjusted to expand international trade further. In keeping with the principles of co-operation and consultation on common problems, I have initiated discussions at a high level with our friends abroad on these critical matters—particularly those nations with balance of payments surpluses. These discussions will examine proposals for prompt co-operative action among all parties to minimize the disadvantages to our trade which arise from differences among national tax systems. We are also preparing legislative measures in this area whose scope and nature will depend upon the outcome of these consultations.

Through these means we are determined to achieve a substantial improvement in our trade surplus over the coming years. In the year immediately ahead, we expect to realize an improvement of 500 million dollars.

7. Foreign Investment and Travel in US

We can encourage the flow of foreign funds to our shores in two other ways:

—First, by an intensified programme to attract greater foreign investment in US corporate securities, carrying out the principles of the Foreign Investors Tax Act of 1966.

—Second, by a programme to attract more visitors to this land. A special task force, headed by Robert McKinney of Santa Fe, New Mexico, is already at work on measures to accomplish this. I have directed the task force to report within

45 days on the immediate measures that can be taken, and to make its long-term recommendations within 90 days.

Our movement toward balance will curb the flow of dollars into international reserves. It will therefore be vital to speed up plans for the creation of new reserves—the special drawing rights—in the International Monetary Fund. These new reserves will be a welcome companion to gold and dollars, and will strengthen the gold exchange standard. The dollar will remain convertible into gold at 35 dollars an ounce, and our full gold stock will back that commitment.

The programme I have outlined is a programme of action.

It is a programme which will preserve confidence in the dollar, both at home and abroad. The US dollar has wrought the greatest economic miracles of modern times. It stimulated the resurgence of a war-ruined Europe. It has helped to bring new strength and life to the developing world. It has underwritten unprecedented prosperity for the American people, who are now in the 83rd month of sustained economic growth.

A strong dollar protects and preserves the prosperity of businessman and banker, worker and farmer—here and overseas. The action programme I have outlined in this message will keep the dollar strong. It will fulfill our responsibilities to the American people and to the free world.

I appeal to all of our citizens to join me in this very necessary and laudable effort to preserve our country's financial strength.

Executive Order on Capital Transfers

FOLLOWING IS the text of an executive order issued by President Johnson:

By virtue of the authority vested in the President of Section 5 (B) of the Act of October 6, 1917, as amended (12 U.S.C. 95A), and in view of the continued existence of the national emergency declared by proclamation No. 2914 of December 16, 1950, and the importance of strengthening the balance of payments position of the United States during this national emergency, it is hereby ordered:

1. (A) Any person subject to the jurisdiction of the United States who, alone or together with one or more affiliated persons, owns or acquires as much as a 10 per cent interest in the voting securities, capital or earnings of a foreign business venture is prohibited on or after the effective date of this order, except as expressly authorized by the Secretary of Commerce, from engaging in any transaction involving a direct or indirect transfer of capital to or within any foreign country or to any national thereof outside the United States.

(B) The Secretary of Commerce is authorized to require, as he determines to be necessary or appropriate to strengthen the balance of payments position of the United States, that any person subject to the jurisdiction of the United States who, alone or together with one or more affiliated persons, owns or acquires as much as a 10 per cent interest in the voting securities, capital or earnings of one or more foreign business ventures shall cause to be repatriated to the United States such part as the Secretary of Commerce may specify of (1) the earnings of such foreign business ventures which are attributable to such person's investments therein and (2) bank deposits and other short term financial assets which are held in foreign countries by or for the account of such person. Any person subject to the jurisdiction of the United States is required on or after the effective date of this order to comply with any such requirement of the Secretary of Commerce.

(C) The Secretary of Commerce shall exempt from the provisions of this Section 1, to the extent delineated by the Board of Governors of the Federal Reserve System (hereinafter referred to as the Board), banks or financial institutions certified by the Board as being subject to the Federal Reserve foreign credit restraint programmes, or to any programme instituted by the Board under Section 2 of this order.

2. The Board is authorized in the event that it determines such action to be necessary or desirable to strengthen the balance of payments position of the United States.

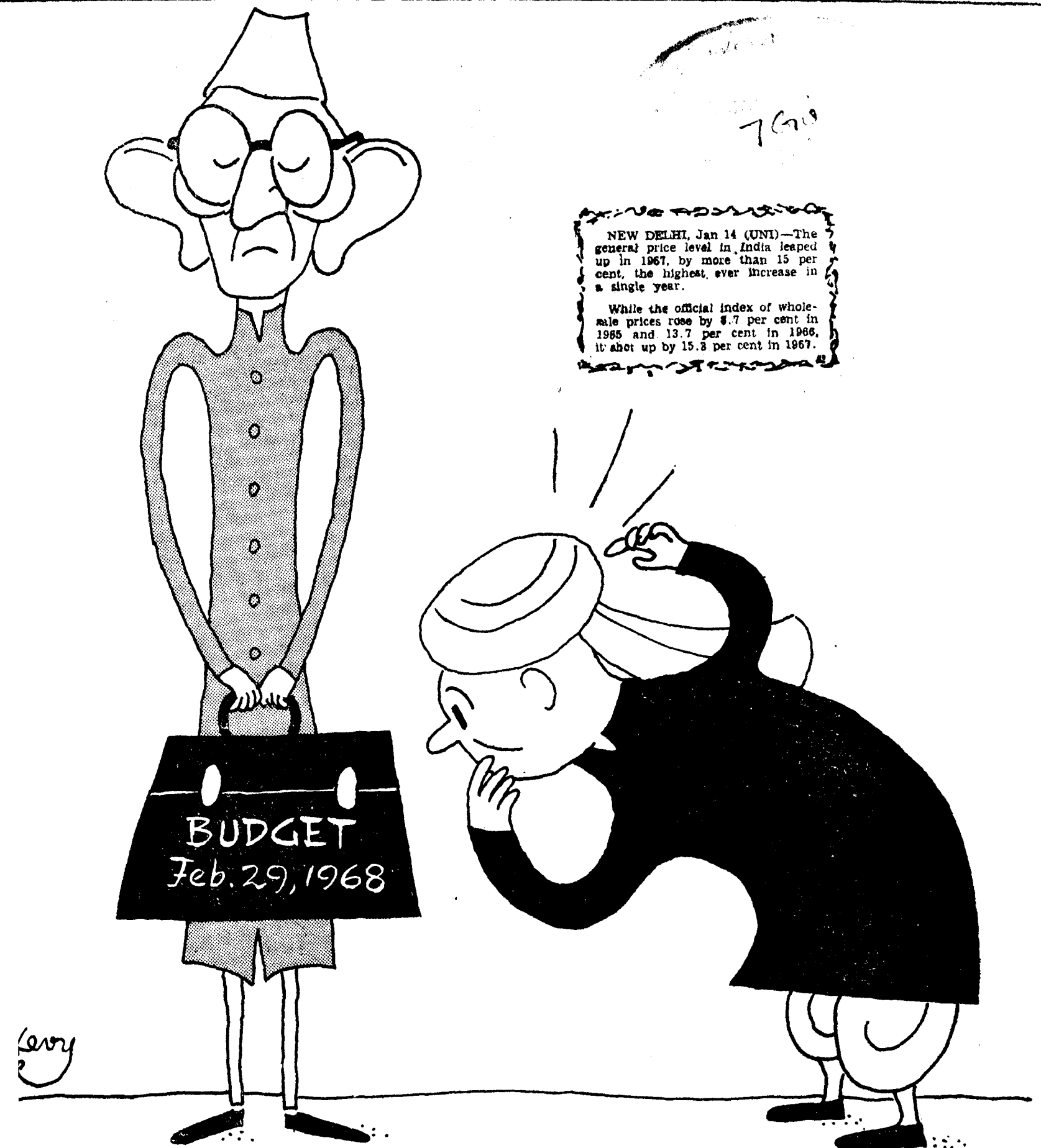
(A) To investigate, regulate or prohibit any transaction by any bank or other financial institution subject to the jurisdiction of the United States involving a direct or indirect transfer of capital to or within any foreign country or to any national thereof outside the United States; and

(B) To require that any bank or financial institution subject to the jurisdiction of the United States shall cause to be repatriated to the United States such part as the Board may specify of the bank deposits and other short term financial assets which are held in foreign countries by or for the account of such bank or financial institution. Any bank or financial institution subject to the jurisdiction of the United States shall comply with any such requirement of the Board on and after its effective date.

3. The Secretary of Commerce and the Board are respectively authorized, under authority delegated to each of them under this order or otherwise available to them, to carry out the provisions of this order, and to prescribe such definitions for any terms used herein to issue such rules and regulations, orders, rulings, licences and instructions, and to take such other actions, as each of them determines to be necessary or appropriate to carry out the purposes of this order and their respective responsibilities hereunder. The Secretary of Commerce and the Board may each redelegate to any agency, instrumentality or official of the United States any authority under this order, and may, in administering this order, utilize the services of any other agencies, federal or state, which are available and appropriate.

4. The Secretary of State shall advise the Secretary of Commerce and the Board with respect to matters under this order involving foreign policy. The Secretary of Commerce and the Board shall consult as necessary and appropriate with each other and with the Secretary of the Treasury.

5. The delegations of authority in this order shall not affect the authority of any agency or official pursuant to any other delegation of presidential authority, presently in effect or hereafter made, under Section 5 (B) of the Act of October 6, 1917, as amended (12 U.S.C. 95A).





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JANUARY 26, 1968

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UNCTAD — With Fingers Crossed

IN ANOTHER week from now, the second general session of the UNCTAD will be in session in New Delhi. This conference has perhaps raised more hopes than it may fulfil, but this is only one more reason why all those governments which have a stake in its success should honestly attempt to see that it is given more than a fighting chance. Here the responsibility of the Government of India, which is the host government, is both particular and precise. It is to be hoped that it will measure up to its responsibility.

Right now, the omens, it must be said, are not too promising. With that youthful and zestful knight errant of the Indira Gandhi administration, Mr Dinesh Singh, the Minister for Commerce, presiding ministerially on New Delhi's behalf over the organisation and conduct of the UNCTAD meet, there is more than a mere possibility of the occasion being turned into a political carnival at which the so-called uncommitted nations may choose to fraternize demonstratively, hoping thereby to embarrass the "have" countries of the world into doing the right thing by the "have-nots". There is also the further risk that given a charter to beautify New Delhi and generally roll the red carpet out for the benefit of visiting delegations, the capital's spending ministries and allied agencies, ever on the look out for pretexts to dip into the tax-payer's money, may succeed in imparting the air of a tourists' galla to the UNCTAD session.

Fortunately, for our country, however, there is, on the credit side, our government's rich assets in the form of wise and experienced civil servants, such as Mr T. Swaminathan, our Ambassador at Brussels, Mr K. B. Lall, Secretary of the Commerce Ministry, and Mr D. K. Srinivasachar and other senior officials of the Commerce Ministry, who are on our government's delegation to the UNCTAD and who are certainly the equals in economic expertise or negotiating skills of any who does business in the wild as well as the wide world of international trade. To the extent that these men of great professional objectivity and competence are allowed to do their job undeterred or uninterrupted by political directives, the Government of India would have discharged its part of the responsibility for helping this session of UNCTAD to make some positive progress in securing benefits of increased international trade and improved international economic assistance and co-operation to the developing nations which deserve as well as need the ministrations of this helping hand.

We are keen on emphasizing in time this aspect of the forthcoming UNCTAD session because of the background against which it is taking place. For some time now there has been a systematic political propaganda that most of the ills of the developing countries could be cured if only the "have" countries were not selfish enough to deny even as small a fraction as one per cent of their respective GNPs to the purposes of development aid. In our view, this contention is at best a half-truth and is, in the present circumstances, moreover irrelevant and unpractical. The UNCTAD is just not going to get anywhere if any large number of its member countries of the "developing" brotherhood have nothing more constructive to contribute to its proceedings than to insist on the academic notion of a particular percentage of the national wealth or income of developed countries being pledged to aid. A formula may

be a convenient tool provided it is not allowed to enslave men's thinking. At the present time, with even the richest countries in the world being forced to live within their means at home and abroad, there is little to be gained in practical terms through an academic insistence on the gearing of economic aid to some arbitrarily fixed figure of donor capacities.

The developing countries therefore stand to benefit more by discussing realistically specific programmes and projects for improving the pattern, direction, quality and efficiency of international economic assistance while recognising the current limits on its quantum. The effectiveness of the efforts of developing countries in this direction will be greatly enhanced if they come to the conference after having done their home-work, particularly in such areas as their own endeavours to develop their export capacities so that they may be in a good position to benefit from such export opportunities as the discussions at UNCTAD may be instrumental in securing for them within a more liberal framework of international economic co-operation in aiding the development efforts and raising the standards of living of the "have-not" countries.

From this point of view, it is quite encouraging to note that in our own country there has been a great deal of informed discussion of the tactics as well as the strategy of export promotion. Last month a conference on export promotion, held in Bombay under the auspices of the Industrial Credit and Investment Corporation of India, occasioned discussion of some practical value besides giving an opportunity to Mr G. L. Mehta to raise the pertinent question whether our country was doing enough to promote trade relations

with its immediate neighbours in south or south-east Asia. Last week, in Madras, speaking at a seminar on export promotion sponsored by the Hindustan Chamber of Commerce, the President of the Federation of Indian Chambers of Commerce and Industry, Mr L. N. Birla, underlined the fact that only the creation of exportable surpluses through an expansion of the economy and an increase in the levels of output and diversification of products in industry, coupled with what he described as a production manoeuvrability to suit world demand, would help our country to get over its serious and significant failures on the export front even after the devaluation of the rupee.

Earlier this week, the Indian Jute Mills Association organised a discussion by a small and serious group of the measures needed to ensure the survival and growth of one of our leading export trades, to wit, the commerce in jute manufactures. Also during this week, the All-India Manufacturers' Organisation and the West German Foundation had jointly sponsored, in co-operation with the Indian Institute of Foreign Trade and the Indian Council of Foreign Trade, a five-day conference on export management and promotion. This effort, which owes much to the initiative of Mr H. J. H. Taleyarkhan, Vice-President of the Indian Council of Foreign Trade, has the great merit that it provides scope for the wisdom and experience of one of the most export-minded nations in the world to be shared with some of our own people in commerce or government who are directly participating in our national export endeavours. We believe that all these discussions should provide excellent material of great practical value which ought to be utilised for giving a realistic and purposive turn to the proceedings of the UNCTAD.

Fetters Must Go

ON THE eve of a central budget which will have to make some hard decisions, it is comforting that the speeches made at the Diamond Jubilee celebrations of the Indian Merchants' Chamber (IMC) Bombay, last month, stressed the need for more dialogue and greater understanding between the business community and the government. Unfortunately, as the IMC president, Dr R. C. Cooper, observed, both have been sadly insufficient so far. As a matter of fact, the gulf started to arise when functional representation was abolished and nothing was done to replace it by something else to bridge the breach. The result has been an avoidable slowing down of the rate of development, a result which is to the liking of neither the government nor the business community. That is why both Prime Minister Indira Gandhi and Dr Cooper readily agreed that, viewed against the background of the revolution of rising expectations of the common man, the results have fallen very much short of expectations. Hence the need to reiterate "the useful role of associative activity in our national life", a very apt phrase used by Mr L. N. Birla, President of the Federation of Indian

Chambers of Commerce and Industry, when he addressed the meeting.

There seems to be an unfortunate feeling that any criticism offered by the business community is motivated only by considerations of personal gain, even at the cost of the nation. Nothing could be farther from the truth, because no businessman can afford to be, or is so shortsighted as to forget that, if and when the nation suffers, everybody, including the business community also, stands to suffer. Businessmen take calculated risks and their overriding preference is to move ahead, as Mr Birla put it, and what they do not like is the government's economic policy interlaced with ideology which holds individual action too much in check and deflates the triumph of action by denying to the individual a fair share of reward, thereby losing valuable time for the nation. Our country as it stands today cannot afford to lose any more time and if our people are not prepared to wait indefinitely for removal of inequalities, as Mrs Indira Gandhi averred, the remedy is not to put more obstacles in the way

of those who can and are in a position to add to the national output and the nation's wealth and brand them all as unpatriotic or, worse still, criminal. Therefore, it is only appropriate that Dr Cooper should have availed himself of the occasion to give expression to the strong feeling of businessmen that it is wrong to stigmatise the entire community for the wrongs of a few anti-social elements here and there. There are black sheep among businessmen and there is no section of the population in this still imperfect world of ours which does not have its own quota of black sheep.

Curiously enough, few, if any, talk of the good—in educational, social welfare, cultural and recreational fields—that the business community has done; it is all so easily forgotten. But some stray evil, real or imaginary, gets publicised out of all proportion, and there are people who seem to specialise and revel in this for their own ends. It is something like the public's criticism of late running of trains. Trains do run late—and they do so more often these days in all conscience!—but, surely, they run to time on more days in the year than the public cares to own. The diamond jubilee of a chamber of commerce which has a rich heritage of service and has been a pioneer in many fields was indeed the occasion to drive home this point and to claim, as Dr Cooper did, that the business community, both in the past and in the present, has made a significant contribution to the task of regenerating the economy and that it has shown sufficient initiative and enterprise even under conditions of rigid controls and regulations in fulfilling its allotted tasks under the overall scheme of planning.

It was heartening, therefore, to hear Mrs Indira Gandhi declare that private enterprise has been given an important place in the economy and that the country wishes it to flourish. She was well-advised too to appeal to all the people to rise above group interests and to work together. This is precisely what the IMC chief also desired when he urged that both the public and the private sectors must function in a spirit of healthy competition. If this is to eventuate, the private sector should not be there merely on sufferance, as seems to be the express and declared objective of a highly vociferous section even in the ruling party, not to speak of those who draw their inspiration from Moscow or Mao. Private enterprise "has a legitimate and, indeed, a necessary function to perform. Within the limits of equality there must be opportunities for people to operate as they wish to own, to initiate and experiment."

Although there seems to be more or less complete agreement on the need for both the sectors to work together thus, it is surprising that, when it comes to translating this recognition into implementation, something goes wrong somewhere. Is it because the Prime Minister feels no "ism" will help including pragmatism? Or is it because of the mistaken understanding that running a government is not like running a busi-

ness? The Prime Minister likened the running of a business to having "an island of efficiency in a sea of slough", evidently implying that the running of government requires all out or all round efficiency! That is the ideal; one wishes it were so. It would be so, indeed, if the ruling party were to recognise that it is its business to run the government and not to make business a part of the government. Wherever this has been done, it has turned out to be exactly as Mrs Indira Gandhi put it—an island of efficiency in a sea of slough. It is a pity that the government has not yet realised that there are spheres where only the government should function and function well. "Let the government arouse itself to do that work which is vital and which none but government can do efficiently", as Mr Birla urged, whilst placing a new em-

The special supplement on the AIMO conference on "Export Management and Promotion" which was proposed to be published along with this issue has been postponed due to certain unavoidable circumstances.

phasis on the activities of the state. He pointed out that "there is a whole world of desirable action in the field of strengthening the infrastructure. We have still a long way to go in so far as good roads, bridges, ports, power stations, housing, health and hygiene are concerned. Even drinking water is not available in many places."

It is significant that neither Dr Cooper nor Mr Birla wanted the government to give up what it has taken up. On the contrary, both of them wanted the government to concentrate on, consolidate and improve the working of public sector enterprises already established and leave the rest to private enterprise. There is no deep-seated fault in the character or abilities of Indian private enterprise to conduct economic affairs without detailed government guidance. If private enterprise is allowed to compete freely, consumers are bound to enjoy the full benefit of a free market and diversified production. Partly due to circumstances, partly owing to the existence of a vast domestic market and partly also as a result of the seemingly unending era of controls, the private sector has tended to become rather complacent. It has had a sheltered market for far too long. It has to become sufficiently cost-conscious to be able, as Dr Cooper said, to compete successfully in the world markets so as to bridge the yawning gap between our imports and exports. But, as Mr Birla made it clear, many obstacles still exist in the form of restraints and restrictions which hold back endeavour and prevent it from being channelled into the relatively more profitable directions for the people as a whole. If the continuing dialogue between all the vital elements of society that the Prime Minister spoke of were to lead to a dispassionate examination of these restraints and restrictions and their early removal, it should be possible to extricate the country from the present difficulties. Sheer sense of survival demands this.

Psychology of Export Promotion

WHEN IN his address to the Indian Economic Association in Madras last month Dr V. K. R. V. Rao stressed the role of psychological incentives in export promotion, he was not making any new suggestion. Most developed countries which have achieved some significant success in their export drive have fully realised the powerful part that non-monetary incentives can play in enthusing businessmen to increase the earnings of foreign exchange. In Britain, for instance, in the new year awards announced on January 1, the names of 44 businessmen appeared under the heading "for services to export", compared to 43 in last year's Birthday Honours. In the previous year only 23 exporters figured in the new year awards and only 15 in the Birthday Honours.

In the USA in 1963 the National Export Expansion Council organised a conference in the White House under the auspices of the President of the United States, which was attended by about 300 top executives both from the administration and the business world. As a result of this conference and the action taken on its recommendations, over 2,000 businessmen entered the export field for the first time. Companies and individuals in the USA who achieve outstanding success in export are also eligible for the prestigious presidential "E" award. The recipients of this award are permitted to fly a blue and white flag at their premises. In Japan, the Prime Minister rewards export heroes with a letter of commendation or with a "Blue and Yellow Ribbon".

Apart from official and public recognition of export efforts, Dr Rao's suggestions included subsidies for certain goods for specific periods and freedom to exporters to import luxury goods and to travel abroad. Similar incentives have been tried in many developed countries and found highly effective. In West Germany, for example, in the early post-war period, exporters were permitted to retain 10 per cent of the export earnings with which they could import consumer goods or any other commodity. Between 1949 and 1952, exporters were allowed to retain 20 to 25 per cent of their foreign exchange earnings and it is stated that the raw materials they imported commanded high premia and helped them to reduce the export prices. In Japan, according to the currency retention scheme in force in 1952, quotas were fixed ranging from five to 15 per cent, depending on the nature of the commodity, and such amounts could be used for "travelling and living expenses abroad related to the promotion of foreign trade, expenses of overseas branch offices, imports needed for the promotion of exports and/or economic recovery, imports of bona fide samples, catalogues, financial directories and other similar trade publications".

The Board of Trade at one time considered a scheme to give public recognition to excellence in exports but, for some reason or the other, it was not implemented.

As regards the monetary incentives such as cash assistance and tax credit certificates, they have not had the desired effect because of the cumbersome and dilatory procedure for claiming these benefits. The Government of India should therefore reconsider the incentive schemes and modify them suitably so as to make them really useful. A combination of monetary and non-monetary incentives can do much to stimulate the exports of both traditional and non-traditional items. In this context, we may refer to the suggestion of Mr C. A. Pitts, Chairman of the Associated Chambers of Commerce and Industry, to withdraw from the cost of export production all taxes, excises and cesses and, in addition, but on a selective basis, give extra payments preferably by concealed tax bonus where necessary.

We should, however, hasten to add that incentives can work only if they are accompanied by other appropriate measures to enable industries to expand, to diversify and to bring down cost of production. It is a mistake to suppose that bumper crops will automatically lead to bumper exports. True, the value of our exports in the first seven months of 1967-68 was Rs 693.2 crores—an increase of Rs 37.5 crores over the corresponding period of 1966-67. But we should remember that we have not been able to make much progress in exporting to vital markets like the USA and the European Common Market. In fact, our exports to the USA declined from Rs 113 crores in the first seven months of 1966-67 to Rs 100 crores in the same period of the current fiscal year and to the ECM from Rs 46.5 crores to Rs 38.8 crores.

We need therefore far more energetic and sustained efforts to step up exports to a satisfactory level. The impediments are formidable indeed but they can be overcome if only the political leadership has the will and determination to do so. While fiscal and industrial policies undoubtedly need radical changes to give an impetus to exports, what is more important is to adopt a positive approach to production. Mr G. D. Birla recently referred to the "complete indifference in government circles, almost verging on contempt, to the requirements of higher industrial production". In such an atmosphere is it realistic to expect exports to expand merely by providing incentives of one kind or the other? It is curious that while Dr Rao realises the importance of the psychological factor in exports, he does not appreciate it for increasing production. Otherwise, how can he suggest, as he did in an interview here recently, that the government should fix an expenditure limit of Rs 2,000 per month per family in order to pull the country out of the financial crisis. Dr Rao wants this ceiling to be fixed for all—ministers, secretaries, industrialists, businessmen and others. There is little doubt that such a proposal, if implemented, will effectively curb not only consumption but also production all round and definitely push the nation further into bankruptcy.

Justice Denied

NEARLY TWO months back a spokesman of the Ministry of Industries made it known that the case for the revision of paper prices to accommodate the increased cost of production during the last few years was being examined by the government. This assurance, apparently, has not satisfied the paper producers who have waited long enough since 1959, when the paper prices were statutorily fixed. Recently, therefore, the President of the Papers Mills Association, voicing the industry's grievances, said that the government had done nothing by way of relief or compensation while the cost of producing a tonne of paper had increased by Rs 464 between 1959-60 and 1965-66. He added that this increase was only partly attributable to a rise in the prices of raw materials but was due mostly to various decisions of the government by way of increases in railway freights, excise duties, import duties and royalties, etc. This increase in the cost of production coupled with arrested prices has reduced the profitability of the industry to a considerable extent so that at present the ratio of profit after tax to net worth has declined to as low as 5.1 as compared to 10.8 for the industries put together.

In adopting this casual, if not callous, attitude towards the paper industry, the government may claim that it is motivated by its desire to make paper available to consumers at low prices for as long as possible. It is unlikely, however, that this conduct would really serve the genuine, long-term interests of the public. An analysis of the present installed capacity, expected demand and investment reveals the grave implications of this attitude. The development council for paper industry estimated the demand for paper and paper boards by 1970-71 at around 900,000 tonnes and that for newsprint at round 300,000 tonnes. The present installed capacity in the field of both paper and paper boards as well as newsprint is around 712,000 tonnes. Taking into account the additional capacity of nearly 150,000 tonnes expected to materialise out of the schemes under implementation or likely to be taken up for implementation, the capacity for paper and paper boards and newsprint will be around 860,000 tonnes by 1970-71, which will yield a production of nearly 700,000 tonnes. In other words there will be a shortfall in production of around 500,000 tonnes in both paper and paper boards and newsprint.

The increased cost of installing a new unit as well as decline in the profitability in this industry has blocked all inflow of fresh capital for investment. The task of establishing additional production of the needed magnitude, therefore, is indeed tremendous. At the moment the cost of installing a new unit of the capacity of 100 tonnes per day has been estimated at around Rs 18 crores and the expansion of capacity of an existing unit to a similar extent needs an investment of Rs 12 crores. Paper manufacturers have stated that, in order to reach an estimated production of 900,000 tonnes of paper and paper board, the industry may have to invest about Rs 400 crores. It has also

been pointed out that, even if the proposed demand does not reach 900,000 tonnes, the investment required for a lower output of 850,000 to 800,000 tonnes may still be of the high order of Rs 300 crores.

Under the present circumstances when the profitability of paper industry has dropped very low it is nearly impossible for the manufacturers to plough back adequate funds for development. Conditions in respect of fresh capital for investment are even worse. In other words the cumulative impact of the present low profitability in the paper industry will be visible in about four years' time when the demand for paper will have increased considerably and there will be little additional capacity to meet that demand. The lack of proper perspective on the part of the government, therefore, is going to make the consumers suffer serious shortages of paper and at that time no palliative by way of increased prices will serve any useful purpose because it takes nearly five years to bring a new paper plant to the level of normal production.

The stress of demand under conditions of serious shortages can force the government to import paper which will become a very costly proposition. Already a substantial amount is being spent on the import of newsprint, which will have to be continued for several years more. There does not seem to be any possibility of new capacity coming into existence for the manufacture of newsprint during the next four or five years. The expansion scheme of NEPA mills will yield a capacity of 75,000 tonnes per annum, but this will not be sufficient because by 1970-71 the demand for newsprint might be of the order of 300,000 tonnes involving a shortfall of 225,000 tonnes. Even if consumers of newsprint are asked to economise, the import bill on account of newsprint will continue to increase during the next five years. Under these circumstances the government will find it difficult to meet the increased demand for paper through imports.

The complaint of paper manufacturers appears to be reasonable from another angle as well. While most of the other essential industries had their prices revised more than once during the last few years, the paper industry seems to have been singled out for step-motherly treatment. The price of sugar which was Rs 108.50 per quintal in April 1963 was revised ten times with the result that the price towards the end of 1967 was Rs 169.50 per quintal, showing an increase of 55 per cent. Similarly the selling price of cement was revised five times during the period of three years between 1963 and 1966. In view of the fact that the paper industry also has its problems to face by way of shortage of raw materials, non-availability of proper equipment for renovation, etc., it is unfair to deny to it a realistic revision of prices. The government should hasten the examination of the structure of prices in relation to costs and announce the results as early as possible. In the meantime, an ad hoc increase in prices of paper should be announced to temper the rigour of the cost-price squeeze.

A New Outlook for Economic Development

BAREND A. DE VRIES

IT HAS become conventional to be pessimistic about the achievements of the developing countries. Economists quote many macro-economic indices to demonstrate the little progress achieved. There are low per capita income data, gloomy growth rates for gross product and exports, stagnating world demand for LDC products*, heavy debt servicing burdens, low domestic savings and dismally little progress in raising them. I have often shared in this game of numbers and I do not want to deny in the least that statistics can be mustered to awaken a concern which all of us in the international community must share about the deepening split between poverty and prosperity.

But I want to look at the development problem from a new vantage point and with a new perspective. I submit that where the statistics are worst, we may yet have evidence of far more progress than appears on the surface and that the gloomiest of projections should not belie the potentials for action which countries can take on their own initiative, maintaining their independence and character.

First, I believe we must redefine the objectives of development. I will confine myself to the objectives of economic development. The objective, I submit, is a society in which all are employed in activities in which they use the most productive methods known to man. One may call the objective "the advanced industrial state", as recently described by Galbraith. In the fully developed economy the bulk of man's activities are performed by large organizations which employ teams of technicians with advanced training in planning, marketing, financing, research and production. These organizations are known as the *corporation* in manufacturing industry. But they are also central to the functioning of the other principal activities of the modern state—the various functions of government and the educational establishment, from elementary school systems to the large universities and technical institutes, some of them with over 100,000 students. Large and complex organizations are active in agriculture, lending essential support in supply of farm inputs, finance, marketing, distribution and extension of information to the last remnant of the atomistic society of nineteenth century liberals—the family-run and operator-owned farm.

Essential Role

Thus, these complex organizations are found in all the main activities of the advanced society and they play essential roles in both public and private endeavour. As a matter of fact, the increasing importance of these organizations has done much to blur the dividing lines between the private and public sectors. For short, I will refer to these organizations as the "corporation", but it should be clear that they are by no means confined to this legal entity.

Characteristic of all corporations is that their various activities are run by the technostucture, to use the descriptive term coined by Galbraith. The technostucture includes people with various advanced skills and specialties—to name a few, systems specialists, engineers, economists, mathematicians, marketing and finance specialists, accountants—who by working in close collaboration with the help of modern equipment and communications can achieve more than any single person, specialist, or generalist however able, could have achieved in an age of simpler technology. The corporation has become the embodiment of technical innovation and advance. It develops new technology or it adapts available technology to its environment in solving its problems.

Even in the most advanced and integrated societies there are still a few highly trained men operating as individuals

This is the text of an address delivered by Mr Barend A. de Vries last week at the Department of Economics, Bombay University. Mr de Vries is a senior adviser to the World Bank.

or small establishments. One thinks perhaps of dentists or general practitioners. But they are bound to disappear as techniques become more and more complex. And all of them would by training or experience be capable of being absorbed in the corporation.

Outside the world of large corporations we find the backward sector which exists in even the most developed nations. There are those people who for historical, cultural or regional reasons did not receive a training which enables them to be productively employed in the corporation. There are those regions which somehow never developed or which have been passed by the advance of technology and were never redeveloped. Untrained and poverty-stricken people have moved in large numbers to the urban centres and have added to the problems of slums and blight. This is not the place to deal with the problem of poverty in the industrial state. But I want to underline the fact that even the developed countries have an essentially dualistic economy.

Countervailing Action Needed

The corporation operates in the advanced sector. But it is not set up to solve the problems of the backward sector, and unless appropriate countervailing action is taken by the community, the corporation may by legitimate pursuit of its own activities worsen the problems of the backward sector. The larger the backward sector, the more underdeveloped the economy: the more action will be required by the community to integrate the people and regions in the backward sector into the advanced sector.

In this view, it is the integration of the backward with the advanced sector which is the process of development. The country which has achieved a thorough integration—in economic and other aspects—has realized the objective of development. It may not be the countries with the highest per capita GDP statistics which are the most advanced and developed. Those which are near the lower end of the per capita income scale may well have taken significant steps toward a fully developed society which are not reflected in the national income statistics. Perhaps this is true for some of the larger developing countries with per capita incomes below \$100 but with a large, modern, industrialized sector.

In this view, development is a global problem—it is a problem with which all countries are faced. Those countries which have made the most significant strides may have done so because of intense attention given to their own backward sector—in education, rural development, adult retraining etc. To stay ahead they must give continuing priority to their own development, the integration of all sectors and activities in a technologically advanced society.

I venture to add this: those of the richest communities which demonstrate awareness of their own internal development needs will also show most understanding of the needs for other communities. I am not talking here of an essential balancing of domestic objectives against foreign objectives. Rather, the attitude toward the development problems of others and what is commonly called development assistance is closely akin to the attitude towards one's own development needs.

Looking at development as an activity of integrating the

backward with the advanced sector brings many problems (with which we are struggling in the development business) into a new focus.

Firstly, much development activity is handicapped by the absence of appropriate organizations—corporations in our terminology—to undertake the many tasks to be performed, or handicapped by the weakness of existing organizations. Much of our activity must be centred on building new institutions and providing the social and legal framework within which they can operate. We must emphasize that complex organizations are required not only for the building of automobiles or rockets but equally for the economic, financial and technical planning, execution and operation of such development activities as irrigation works, hydro-electric systems, water supply, highway construction and maintenance and so forth.

In fact, the structure and staff of the World Bank itself is testimony to the need for technostucture in development. Besides a staff of several hundred technicians of widely varying skills, the Bank employs directly or indirectly, in one way or another, an even larger number of "outside consultants" or induces the organization of technical teams in the LDC's with which it maintains close contact in its lending and advisory business. The "outside" teams so employed are many times more numerous than the Bank's own staff.

Secondly, the core of the development effort is the formation and productive employment of the LDC's own technostucture. In many countries there is a great shortage of technicians of adequate training and experience, and there is a need to employ foreign teams to get things started. In others, there are relatively large numbers of technicians, but in the absence of properly organized and effective institutions their contribution does not come up to their potentials. Unemployment of highly trained technicians seems gross waste for countries starving of productivity improvement. It underlines the need to search for the most suitable mix of general and technical training in the education system and the importance of stimulating economic activity for the sake of providing employment to a highly trained workforce.

Labour Surplus Problem

Thirdly, the backward sector is predominant in the LDC's. One of its principal characteristics is the labour surplus problem about which so much has been written. Compared with the developed countries, the LDC's are at a double disadvantage—they have faster population growth and they start from a situation of massive unemployment. Employment is defined as productive engagement utilizing modern technology and organization. Development is the activity of providing employment in this sense. How rapidly can the advanced sector absorb the labour surplus, a rapidly growing surplus?

Fourthly, setting aside all refinements, we can say that the advanced sector must grow at a "super-rate"—say, by eight to 12 per cent per year—if, indeed, it is to absorb the labour surplus. The fact of the matter is that few LDC's have managed to maintain such rates for sustained periods. Much of our attention must be on the growth rate of manufacturing industry. In the fifties, when many countries capitalized on the most obvious import substitution potentials, they achieved industrial growth rates of 10 per cent or more. But lately these import-substitution induced programmes have run out of steam. In the sixties industrial growth rates have been smaller and many ask the question: "When will exports of manufactures start making a greater contribution?"

Fifthly, it is the advanced sector which must provide the financial resources for development of the backward sector. Since it is small and weak in many countries, the advanced sector must receive support from abroad for its own development. When it becomes larger and more established, its corporations must be placed in a position to finance themselves. Once this process has started, public development assistance can focus on the backward sector and on (public development

activity in) education, health, housing, population control, etc.

From these observations follow some pointers on strategy and priorities.

First, the importance of building both institutions and a framework within which they can operate. Below I will discuss the implications for development planning. We are accustomed to hearing about limited absorptive capacity, delays in investment execution and low investment yields. Consider for a moment one consequence of ineffective institutional arrangements: the cost of investment delays. In a programme where project completion should average four years and the principal macro-economic parameters (e.g. capital-output ratios, investment and savings ratios) are within normal ranges, an average delay of two years—a rather routine occurrence—represents an enormous cost in terms of investment returns foregone. Fairly simple calculation will show that this cost may run up to one-third of the net receipts of external loans. This highlights forcefully the need to seek proper institutional arrangements in connection with development financing.

Aspects of Development

Secondly, no development programme is complete without special and continuous activity to accelerate the growth of the advanced sector. Some aspects are:

- The use of up-to-date technology and, associated with this, capital-intensive techniques.
- Training programmes to enhance the effective application of these techniques.
- Industrial structure and organization to facilitate economic production volumes and enhance competitiveness.
- Utilization of export potentials.

Thirdly, it must be realized that the labour surplus problem of the backward sector is not likely to be resolved within a few years. Progress will be slow because of technical and cultural as well as financial reasons. For many countries there may also be external reasons why their advanced sector cannot grow fast enough (through export expansion) to absorb the excess labour force. Special measures must be directed to provide productive employment for the excess labour force. Clearly, its potential must be put to work in the interest of maximizing the pace of development. There will be, for a long time to come, a case for labour-intensive projects in the public sector. Action in this area should in no way place obstacles to accelerated and efficient growth of the advanced sector, which often utilizes techniques (and factor proportions as the economists call them) which are diametrically opposed to those called for in the backward sector. Thus, while there is ground for creating employment in rural areas, it is a mistake to promote industries on strictly regional grounds, if these industries can, for many years, be expected to be un-economic.

The persistence of the backward sector will put a long-lasting charge on the advanced sector which will generate the bulk of the country's savings. This is even more reason why the advanced sector must maximize its efficiency, not in the least through suitable institutional arrangements, so that it may maximize its contribution to the backward sector.

Fourthly, the existence, side by side, of advanced and backward sectors raises several points of interest in the administration of development assistance. But, as on other questions of development, there are no easy and generalized rules. A few observations are in order. The use of labour intensive techniques in public investment calls for special consideration—it requires little capital equipment, and may place a sudden strain on food and housing supplies. On the other hand, the existence of appropriate institutions in the advanced sector may make this sector a more efficient recipient of external aid. If assistance is channelled primarily to the advanced sector there will be added strain on the country's internal capacity to transfer resources to the backward sector

* The products of the less developed countries (LDC).

and to take basic measures for the development of that sector. Finally, the importance of transferring technical know-how and institutional arrangements suggest that at least part of external assistance be designed to strengthen these aspects of the development effort.

We should not think of external assistance as being merely in the public domain, or in the form of loans, be they long-term or short. Because of the importance of the two aspects just mentioned, institution building and the transfer of know-how, I want to draw special attention to the actual and potential role which the international corporation can play in development. Because of its resources, technical, managerial, administrative, as well as financial, it is equipped to make a vital contribution to developing countries.

Role of International Corporation

One thinks, of course, primarily of manufacturing activity. It is no surprise that in most developing countries the bulk of new industry has close relations with industries abroad, as providers of know-how, finance, components and so on. But the most strategic role of international corporations may yet be as promoters of exports. For them shipments from Pittsburgh to Sao Paulo and from Bombay to Hamburg are equally simple. Exports become inter-plant shipments or product movements justified by costs.

International business organizations may also increasingly prove to be of assistance in other sectors—e.g. education (television), housing and more complex forms of planning. To be effective, these companies require a co-operative attitude on the part of the recipient community. By gearing—as it should—its policies and planning to enhance the effectiveness of all autonomous entities, the community will also help the international corporation. It is often argued that it has excessive expectations as to investment yields. But, should not all yields be high in a rapidly growing economy in a world of scarce capital supply? Moreover, the international corporation cannot be expected to compete with local talent, but rather to compete for local talent: because even in the developed countries they often experience difficulties in mobilizing sufficient personnel, with the required skills and experience. On the other hand, one would expect the foreign corporation to be sympathetic to the development objectives of the host country. These should be spelled out along clearly drawn lines.

Implications for Planning

The central role of the technostucture in economic development, the importance of appropriate institutions in both the private and public sectors and the transfer of know-how lead to several suggestions on the nature and orientation of development planning. As you know, we in the World Bank have given much thought to this question—in the context of our experience in various countries—not the least my colleague Waterston.

First, in all sectors of development, we must underline the importance of autonomy for the organization in charge of planning, executing and operating a project or a manufacturing enterprise. On each of the projects which make up an investment plan or an industry effort, there are simply so many decisions to be made and on each of these so many people are directly involved, that insufficient autonomy will lead to extremely costly delays. It is humanly and technically impossible to have centralized direction of a large number of project and enterprise units, each of which is itself the result of a complex process of decisions involving many technicians. Furthermore, once the unit is in operation, its financial autonomy is basic if these units are to play their role as the principal providers of finance in development.

Secondly, the counterpart of autonomy for the various units is the establishment of a clear and simple policy frame-

work within which they can operate. Interference with the price system or the allocation system may not only lead to distortions in resource allocation, they will affect the efficiency and effectiveness of the corporate organization itself. There are many aspects of such a policy framework which deserve more attention than I can give them here. For example:

- A clear set of investment priorities.
- A minimum of direct controls on prices and material allocations.
- Freedom of capital movements.
- Interest rates which reflect the cost of capital and enable corporations to operate with financial autonomy.
- Maintenance of prices which reflect true cost of production.
- A protection policy which encourages competitiveness and export-orientation.

In summary, these points which may be somewhat different from our conventional thinking emerge.

Self-Generating Process

First, in evaluating progress made, we must look at the position of the technostucture and the institutions within which it operates. Once effective institutions have been established and manned, development will proceed as a self-generating process. The statistics will follow and record rapid growth. Here I am not merely talking of national account statistics.

Secondly, the dual economy has an international character. The richest countries are also dualistic. Their attitude toward the backward sector is of relevance to their capability—technical, financial and political—of providing assistance.

Thirdly, the backward sector will be with us for a long time to come, and so will be the labour surplus problem and the requirements of coping with it. But the measures taken to utilize excess labour should not interfere with accelerated and efficient development of the advanced sector.

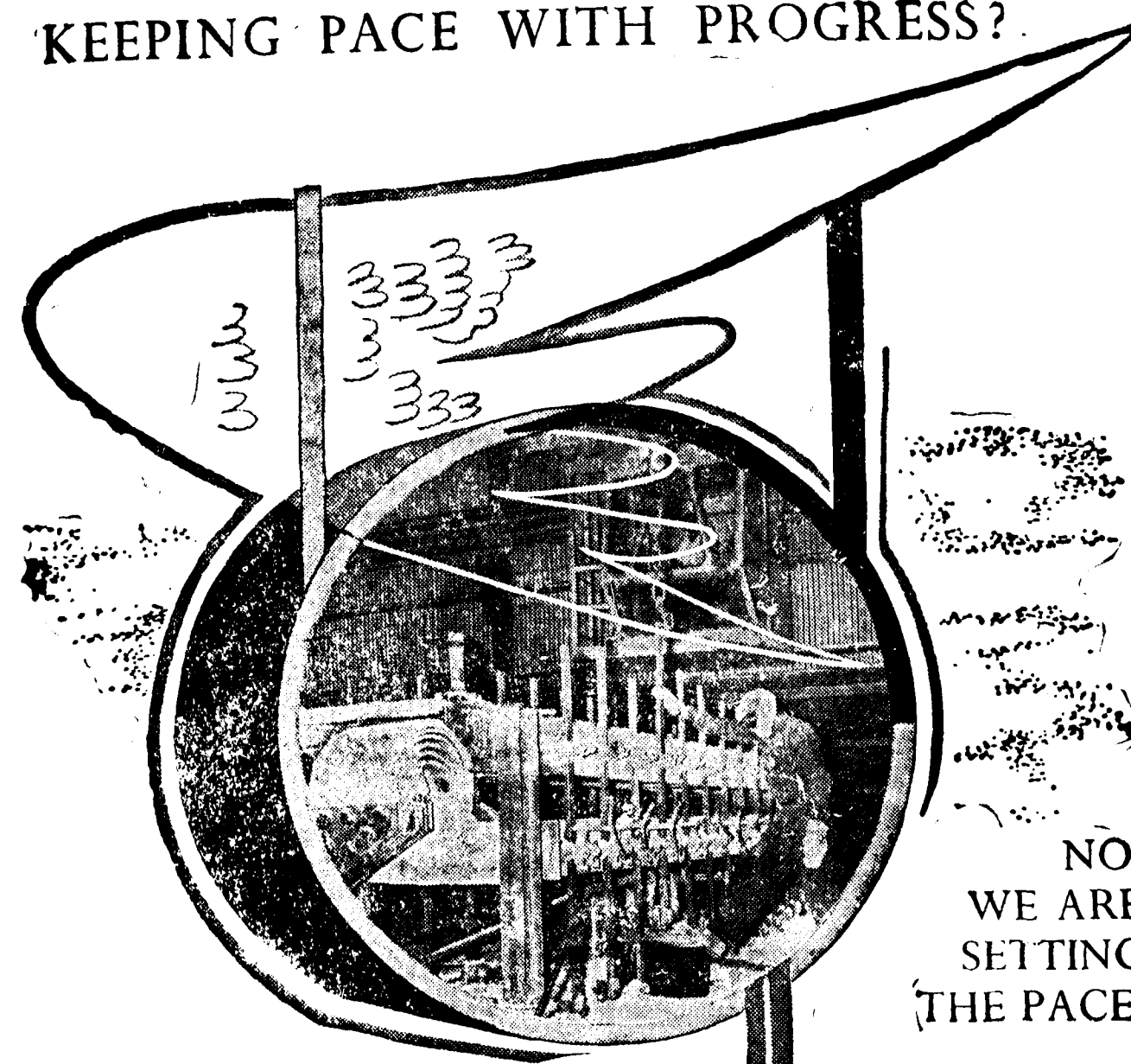
Fourthly, we must think of development as a process, an international process. It is not a matter of a decade or even a generation.

Fifthly, the advanced sector must grow at a super-rate if it is to make a contribution to the development of the backward sector—and particularly of the labour surplus problem. Accelerated growth will require more rapid and more flexible training of an educated labour force. It will also require capital. The capital requirements of the advanced sector, growing at an accelerated pace, are probably far greater than can be told from present flows. So will be its capability of using capital. This has implications not merely for development assistance. It underlines the importance of financial autonomy and profitability of the production units in the advanced sector.

Finally, many steps can be taken which themselves do not require large outlays of capital and yet are essential to development. To mention a few:

- The establishment of clear policy guidelines.
- Recognition of the autonomy of project and enterprise units.
- Strengthening of vital development institutions.
- Decentralization of planning and less emphasis on centralized controls.
- Use of surplus labour in the labour-intensive projects.
- Employment of the resources of international corporations.

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Coffee Scales New Peaks in Production

From Our Correspondent

AMONG THE plantation crops, coffee has an outstanding record both in regard to production and exports. In 1950-51, the total production of coffee in our country was around 19,000 tonnes but it rose to 68,000 tonnes in 1960-61 and is estimated to have exceeded in 1966-67 77,000 tonnes which is the largest crop obtained so far in the history of this country. The index number of coffee production (base: 1949-50 = 100) rose to 339.5 in 1966-67 and scored over all other crops, food and non-food. It is estimated that in 1967-68, coffee output will be nearly 79,000 tonnes (50,000 tonnes of Arabica and 29,000 tonnes of Robusta). These figures amply demonstrate the dynamic manner in which the size of the coffee crop is growing year after year. The credit goes to the planters who are steadily improving the volume of output through modern methods of production, extensive use of pesticides and fertilizers and improved irrigation facilities.

Limited Possibilities

Again, the volume of exports of coffee in 1950-51 was no more than 300 tonnes but in 1966-67, it is estimated to have reached 35,000 (quota and non-quota quantities). The export possibilities are, however, limited by the quota allotted under the International Coffee Agreement (ICA) of which we are a member. Our country has been asking for an increase in quota because of our enhanced capability to export but the ICA has always allotted only about half of the quota asked for. The quota for 1967-68 has been fixed at 25,380 tonnes. Including shipments to non-quota countries, the level of exports is likely to reach 35,000 tonnes.

An attempt has been made recently to curb the consumption of coffee within the country by enhancing the excise duty on coffee. This, according to the planters, is a wrong

policy because, we cannot increase exports at our sweet will as our country is a party to the ICA and we cannot export coffee outside this agreement. Moreover, the exports to non-quota countries cannot rise as quickly as has been the case with the size of our crop. The duty on coffee is also inequitable as it is applied uniformly to all grades, irrespective of the price fetched by each.

The export performance of coffee is, comparatively speaking, much better than that of tea, though the scales of operation in the two cases are entirely different. India's exports of coffee as a percentage of world exports was only 0.1

TABLE II

COFFEE PRODUCTION IN INDIA

1919—1967

Period	Area (hectares)	Production (tonnes)	Productivity (kg/ha)
1919-23	51,337	9,887	192.40
1939-43	75,858	16,492	217.40
1959-63	1,24,016	57,862	466.57
1964-65	1,29,992	61,015	461.69
1965-66	1,30,000	63,920	491.70
1966-67	1,32,000	77,120	584.24

per cent in 1948; the share has multiplied 12 times so as to become 1.2 per cent of the world exports in 1965. As compared to tea, coffee has certainly done better as tea has been steadily losing ground, in percentage terms, in the world markets.

Coffee is the plantation crop of Mysore state. A major portion of the agricultural income-tax of this state originates in coffee plantations. Efforts have been made to increase coffee production in other south Indian states such as Andhra Pradesh, but not much success has been recorded so far. The state of Madras also is not placed in any happy situation in so far as the production of coffee is concerned. In 1966-67 the total area under coffee in the state of Madras was 25,849 hectares while it produced only 8,555 tonnes, showing a yield of 331 kg per hectare as compared to 671 kg per hectare in Mysore. It is the erratic climate in Madras which is not in favour of coffee production.

The recent rise in production has been mostly in the case of Robusta coffee. The improvement in Arabica coffee has been comparatively of a small order. A heartening element of the growth of coffee output has been the steep rise in the productivity of the coffee (both Robusta and Arabica) plantations. Back in 1919-23, the total production of coffee in this country

TABLE I
COFFEE PRODUCTION AND EXPORTS

1950-51—1966-67

			('000 tonnes)	
Year (July-June)	Production	Exports		
1950-51	18.9	0.3		
1955-56	35.0	8.1		
1960-61	68.0	32.3		
1961-62	46.1	19.8		
1962-63	56.2	22.4		
1963-64	69.3	33.0		
1964-65	61.0	23.0		
1965-66	63.9*	28.8		
1966-67	77.1	35.0*		

* Estimated.

Source: Coffee Board.

was less than 10,000 tonnes and the yield in kilograms per hectare was around 192 kg. In 1966-67, production as stated above exceeded 77,000 tonnes and the yield per hectare had multiplied three times to 581 kg per hectare. This is all due to the large-scale use of fertilizers and pesticides in coffee plantations. The fertilizers used in coffee plantations today are almost eight times more per hectare than was the case 20 years ago.

Mexico is the largest producer of coffee in the world but it does not have as good a record in yield per hectare as India and some of the other countries such as El Salvador, Uganda and Ivory Coast. The table below shows that in 1963-64,

TABLE III
COFFEE YIELDS IN INDIA AND OTHER COUNTRIES
(1963-64)

Country	Yield kg/ha.
El Salvador	916.80
Uganda	646.27
India	535.45
Ivory Coast	491.90
Mexico	449.84
Brazil	324.13
Honduras	263.64
Venezuela	153.82

our country occupied the third rank amongst the major producers of coffee in so far as productivity was concerned.

TABLE IV
INDIA'S POSITION IN WORLD COFFEE AND TEA: 1948-1966

	Coffee				Tea			
	World production ('000 tonnes)	India's production as %	World export ('000 tonnes)	India's export as %	World production ('000 tonnes)	India's production as %	World export ('000 tonnes)	India's export as %
1948	1,639	1.34	1,019	0.1	486	52.89	377	53.3
1953	2,100	1.43	1,801	0.5	653	42.57	465	48.7
1958	4,003	1.15	2,122	0.7	908	35.79	555	41.3
1963	3,961	1.74	2,857	1.2	1,040	33.08	530	42.1
1964	3,516	1.71	2,463	0.9	1,089	34.61	492	42.7
1965	4,347	1.47	2,390	1.2	882	41.27	556	42.1
1966 (Estimates)	3,850	1.9	2,920	0.6	897	38.70	--	--

During the past three to four years productivity has risen still further.

The latest development in the international coffee market is the popularity of instant coffee and our country should make an effort to capture a part of this trade. The two major problems which face us in developing exports of instant coffee are: (1) high prices of our instant coffee and (2) low extraction rates from green coffees. It is suggested that we may increase our exports considerably by using improved equipment and machinery such as high class roasters, spray drying machinery, extraction machinery and grinders which will all have to be imported.

Modernisation of Equipment

The foreign exchange cost of modernising the existing manufacturing units will not be more than Rs 20 lakhs, according to an estimate made by the Indian Institute of Foreign Trade. It is, therefore, necessary that the Coffee Board in consultation with the Directorate General of Technical Development should work out a plan for the modernisation of equipment and machinery. At present, the instant coffee manufacturers have to obtain their supplies of raw coffee from out of the quota allotted for internal sale. They should be allowed to participate in the export sales conducted by the Coffee Board or raw coffee should be made available to them at world prices. A still better suggestion is that a separate quota should be released to the manufacturers of instant coffee as against the present allocation of the general quota for all forms of processed coffee. We can export 200 to 300 tonnes of instant coffee within the next two years, providing additional foreign exchange earnings of about Rs 6 lakhs a year.

In order to increase our export earnings, we should also take to the "monsooning" of coffee for which we hold a monopoly in the world and which fetches at least ten per cent higher price than ordinary raw coffee. The "monsooning" of coffee consists of exposing it to monsoonic weather in the coastal areas. It requires packing coffee in loose gunny bags for nearly six weeks till it takes on the silvery white colour. Such coffee is produced in the South Kanara district and the present production is not more than 1,000 tonnes. With a little additional effort, it can be raised to 2,000-3,000 tonnes.

FROM THE CAPITAL'S CUPBOARD

Shipping Difficulties May Ease

THE TURN-ROUND of vessels at most of our ports is expected to improve considerably this year. Not only the pressure of imports of foodgrains will be appreciably less this year than it has been in the last two years, but some of the port improvement and expansion schemes will also start yielding results.

The Madras port is expected to have by the end of the year an integrated ore-cum-oil dock outside the present harbour. This will help in the achievement of berthing self-sufficiency. With the completion of two ore berths, a general cargo shipment berth and a special fertilizer berth, delays to shipping at the Visakhapatnam port have already been reduced to a large extent. The situation here will ease further soon as the second general cargo berth is almost ready.

The turn-round of vessels at all the ports will improve further by 1971. By that time the Haldia dock system would have been completed to remove the congestion at the Calcutta port. The ambitious 1962 dock expansion scheme of Bombay and the extension of the Ballard pier there would also have been implemented by then. So also are expected to be completed several other development programmes of Cochin, Visakhapatnam, Kandla and Mormugao. Besides augmenting of the cargo handling equipment, dredgers and tugs, the development programmes of these ports currently under implementation include:

- (1) **Cochin:** Addition of one general cargo berth in the Mattancherry channel.
- (2) **Visakhapatnam:** Conversion of three jetty berths into quay berths and improvement of rail facilities and the entrance channel.
- (3) **Kandla:** Addition of two general cargo berths and expediting of cargo clearance by linking the port to Ahmedabad via Jhund by a broad-gauge rail link by 1969.
- (4) **Mormugao:** Provision of an ore pier, an iron ore handling plant of 6,000 tonnes capacity, a separate mineral oil jetty and modernisation of the present shore berths.

The provision of an additional cargo berth at Paradip is under the consideration of the government.

LINER TRADE : NEW ROUTES

The union Ministry of Transport and Shipping feels that it would be in the overall national interest if the Indian shipping companies enter or increase their operations on such liner trade routes as India/South America, West Coast of India/Australia, India/Indonesia, India/New Zealand, India/West Africa, India/West Indies and India/Persian Gulf. Entry on these routes, it is pointed out, will not only promote our trade with these areas but will also help in saving a good portion of the foreign exchange currently spent on ocean freight on these routes. It is recognised that at the present level of our trade on these routes, it may not be profitable for our shipping companies to enter or increase their operations on some of them. Incentives, therefore, may have to be provided. A study of the issue has been proposed.

MACHINE TOOLS

Although government spokesmen are never tired of professing that in industries in which both the private and the public sector have a vital role to play, no discrimination is being practised in allowing diversification of production, the private sector machine tool industry feels that it is being accorded step-motherly treatment. Notwithstanding the facts that nearly Rs 35 crores are being spent annually on importing machine tools and import-substitution is the basic tenet of our industrial policy, the private sector manufacturers are understood to be finding it difficult to get cleared some of their

proposals to undertake the production of new types of machine tools on the ground that the public sector enterprise, Hindustan Machine Tools, has plans to produce them. The HMT is said to be holding 17 collaboration agreements for the manufacture of new types of machine tools. But when these agreements will be implemented is not known. Its finances being in poor shape at present, several of the expansion programmes of HMT have been postponed. (Unnecessary duplication of capacity obviously has to be avoided. But is it desirable to hold back the diversification of the private sector units simply because the public sector intends to produce something at a future date? A fresh look at the progress of the expansion and diversification programmes of HMT, it is suggested, is desirable in the interest of conserving foreign exchange.

ALUMINIUM IN DISTRESS

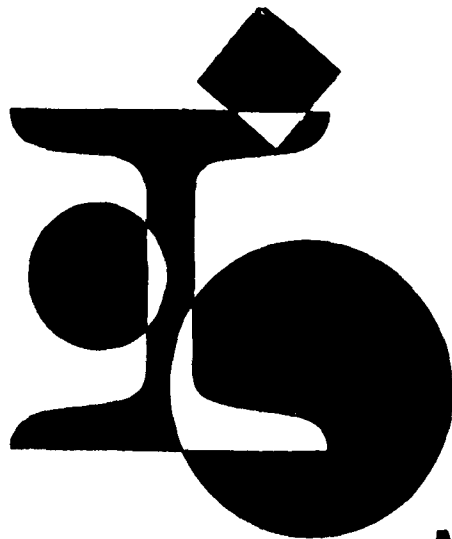
The recession in the engineering industries, the sharp increase in the excise duties and the import of nearly 33,000 tonnes of electrical grade aluminium last year have led to a substantial under-utilisation of the aluminium manufacturing capacity. Although production of primary aluminium during the last calendar year is estimated at 85,000 tonnes, as against 63,000 tonnes in 1966, the capacity utilisation in the industry was only about 85 per cent. To cap it all, the stocks of the metal with the manufacturers, which are usually negligible, have, of late, started mounting. To rectify the situation the industry sources suggest that measures ought to be initiated at an early date to revive the demand. This, they feel, can be done by making suitable adjustments in excise duties and by placing larger orders for ACSR and AAC cables. The programme of rural electrification, it is further felt, will have to be expanded considerably.

AGRARIAN EXPORTS

Thanks to improved agricultural output, exports of such agrarian products as cashew nuts, spices, manufactured and unmanufactured tobacco, chillies, raw cotton and cotton waste, shellac and processed food (including marine products) are expected to exceed the targets fixed for this year. The exports of several of these items during the six months to September have, indeed, been encouraging. The following are the targets set and the estimated exports between April 1 and September 30, 1967.

Item	Export target for 1967-68		Exports during April-September, 1967	
	Quantity ('000 tonnes)	Value (Rs crores)	Quantity ('000 tonnes)	Value (Rs crores)
Cashew nuts	55	42.75	55	21.59
Spices	--	15.00	--	11.55
Tobacco				
(i) Unmanufactured	60	18.59	60	23.48
(ii) Manufactured	--	0.94	--	0.38
Shellac	16	5.47	16	not available
Processed food	5	4.46	5	2.83
Marine products	--	20	--	12.8
Raw cotton and cotton waste	--	18.00	--	10.00

The exports of HPS groundnuts, it is learnt, have been resumed recently. Although sugar exports this year may not exceed Rs 9.75 crores and the unit value of cashew nut exports has gone down compared to the last year the foreign exchange earnings from the exports of the above-mentioned items this year are expected to be between Rs 140 and 150 crores.



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WINDOW ON THE 'WORLD

What's Wrong with Gold?

JOSSLEYN HENNESSY

THE FACTS ABOUT GOLD

LONDON:

I ENDED my round-up on President Johnson's five-point plan to safeguard the US balance of payments last week by saying that what we need is an international conference to work out a world monetary system in which rising surpluses—not deficits—form the basis of rising liquidity. And my bet is that the potential scale of world-wide calamities that could follow the elimination of the US deficit and the end of the Vietnam war will cause the major powers in Europe and North America to feel compelled seriously to debate international monetary reform plans as those of Triffin, Stamp, and Jacques Rueff.

Each of the plans of these three monetary experts has its own difficulties. No problem involving all the trading nations of the world can be easy to solve. The big obstacle to the acceptance of the Triffin and Stamp plans is that they involve some cession of national sovereignty in monetary matters to an international authority—a step which virtually all nations shrink from taking. The great advantage of M. Jacques Rueff's plan is that it involves a minimum surrender of national monetary sovereignty and would be to a large extent automatic in its working. (though not, of course, completely) automatic in its working. For this reason, and also because M. Rueff's plan has received far less informed discussion than those of Triffin and Stamp, I outline it here this week.

In the perspective of the USA's GNP of \$800,000 million, its payments deficit of some \$3,500 million is a flea bite, but the USA's problem is not that it lacks wealth but that it lacks foreign exchange. The USA's situation is dangerous because its continuing payments deficits are piling up foreign claims on a dwindling amount of US gold.

The amount of free gold in Fort Knox—i.e., the gold which is not earmarked as backing for the money in circulation—recently stood at approximately \$2,000 million (\$13,230 million minus \$11,000 million) against a net amount of at least \$22,000 million of short-term liabilities held by foreigners. The 25 per cent backing requirement could, of course, be reduced or waived, but if the payments deficit did not disappear, the situation would go from bad to worse and ultimately end in an embargo on gold. This is why the European central banks have become reluctant to increase their dollar balances, and why some have asked for repayment in gold.

This is a dangerous process which, the precedent of 1931 showed, leads to recession. The share of the annual production of gold going to monetary reserves has steadily diminished from \$810 million in 1963 to \$250 million in 1965. For the first time, in 1966, there was a net loss of \$40 to 90 million. To postpone the deflationary effects of this trend and to help to finance the US balance of payments deficits without too much loss of gold, various expedients have been devised since 1961, e.g., the General Agreements to Borrow, swaps, Roosa bonds, and the increase in quotas in the IMF. Each of them has, after a period, run out of steam. The "special drawing rights", which were accepted in principle in Rio de Janeiro, are simply a new step in the same direction.

To ward off the deflationary effects of a persisting deficit in the US balance of payments, the only lasting solution is to eliminate the causes.

The "paper gold" solution, as M. Rueff calls the gold ex-

change standard, is only an attempt to postpone the evil hour by christening "gold" what is really paper. All past experience, as well as common sense, shows that if the paper gold solution is applied for several years, it inevitably leads to general non-convertibility of currencies, which results in inflation, foreign exchange controls, rationing of imports, "stabilization plans" and every kind of other economic control.

Of President Johnson's five-point plan (announced on January 1) to defend the dollar, the following four are clearly first steps back towards the inter-war period of government controls on foreign trade:

(i) a complete ban on direct US investment in continental Europe and other developed countries "not heavily dependent on our capital"—this is intended to reduce such investment from \$5,000 million this year to \$4,000 million, a saving of \$1,000 million;

(ii) a cutting back of foreign loans by US banks, designed to save \$500 million;

(iii) an urgent appeal to all Americans "to defer for the next two years all non-essential travel outside the western hemisphere." The expected saving is \$500 million on tourism account; and

(iv) a reduction of \$500 million in US government spending abroad.

The fifth point—an improvement of \$500 million in the US trade balance in 1968—will, it is hoped, result from the first four, but I have yet to see any financial commentator who thinks that the President's plan will achieve complete success, so one must presume that sooner or later he will think up sterner controls.

It is sad to see the USA—the world's leading and the most outstandingly successful exponent of free enterprise—adopting policies which lead to authoritarian controls, which can only restrict the volume of international trade and slow down the multiplication of wealth throughout the world.

II

WHAT IS THE RUEFF PLAN ?

M. Jacques Rueff reasonably suggests that the USA is not compelled to follow these policies, which tackle symptoms and ignore the cause of the US balance of payments deficit. There is a constructive alternative open to her. Every year since 1961, the US financial authorities have declared that the deficit was under control and would disappear in the following year, but history shows that administrative action to control foreign payments will not work in a non-totalitarian state. In fact, in a non-totalitarian country, the balance of payments can be restored only by monetary means, such as those imposed by the gold standard when there is no major internal inflation—which was the situation in the USA until about two years ago.

Of course, if this is not done through the more or less automatic effects of gold transfers, it can theoretically be done by a systematic restriction of credit aimed at damping down aggregate domestic demand. The post-war experience has, however, demonstrated that this is politically as well as economically impossible.

M. Rueff therefore goes on to argue that the leading powers must recreate an international monetary system in

which a debtor country loses what a creditor country gains. That implies the elimination of all the expedients of the gold exchange standard. In other words, M. Rueff advocates a return to the settlement of international balances in gold.

But if dollars cease to be acceptable to settle future deficits, the banks that hold them will be led to ask the USA to repay them in gold. That would cause widespread embarrassment, to say the least. Therefore, the dollar balances must be repaid, at least in large part, before any return to a real system of international payments is possible.

Existing gold stocks have had to be supplemented by the dollar balances only because the price of gold has been maintained at its 1934 level, while all other prices have more than doubled in the USA since then. If the price of gold were restored to its previous level in relation to other prices—i.e. approximately doubled—the \$13,000 million in Fort Knox would be worth \$26,000 million. The volatile part of the dollar balances, which means no more than \$13,000 million, could easily be repaid.

M. Rueff's plan implies an international agreement between all countries with a convertible currency (the Ten, plus a few others) by which they would undertake:

(1) Not to increase appreciably from a given date their monetary assets in dollars and sterling. This would not impede the acquisition of dollars and sterling for the purpose of settlement within reasonable working limits.

(2) To increase simultaneously the price at which their central banks buy and sell gold in their respective markets—the amount of this increase to be established by agreement.

(3) The USA and the UK would undertake to use the in-

crease in nominal value of their gold stocks for immediate repayment, in gold, of the dollar and sterling balances held by the central banks or public authorities of other countries. This would eliminate the dollar balances but reduce the existing sterling balances by only about one sixth.

(4) Countries holding gold but with no balances to repay—in effect, all countries with convertible currencies other than the UK and the USA—would then agree to offer the UK a 20-year loan to cover that fraction of the nominal surplus of their gold stocks necessary to repay in gold that part of the sterling balances which would not have already been consolidated.

(5) The same countries would allocate part of the nominal surplus of their gold stocks left over after the preceding operation (amount to be fixed by agreement) for aid to the developing countries.

(6) The same countries would undertake to use, as fully as possible, the nominal surplus that remains after methods (3), (4), and (5) had been used to repay their debts, especially the repayment in gold of the debts which they have contracted with their respective central banks.

One recent criticism of M. Rueff's proposals came from a high monetary authority, who said: "Gold as an instrument of foreign exchange is bound to disappear because of its scarcity. I cannot see how it would be possible to get enough gold to meet the increasing need of international media of payment."

"This monetary authority is quite right", replies M. Rueff. "but he ought to add that the situation is as he said only be-

cause the world has decided to maintain the price of gold, alone of all prices, at its 1934 level."

The need for gold for monetary settlements is not expressed in a certain weight of metal, but in a certain value. Existing gold stocks are insufficient because the global value of the monetary reserves in gold, and of the annual additions resulting from newly mined gold, are only half of what they would be if the price of gold had been maintained at its normal level in the scale of world prices. Furthermore, the maintenance of an artificial price impedes the search for new mines and the exploitation of those mines where gold content is low.

The monetary authority referred to above added: "There is no monetary standard more practical, more supple, more adjustable than a money based on confidence. The only problem is to extend to the international level the system existing everywhere for internal trade." To this, M. Rueff replies: "Supple, adjustable! Every non-convertible currency has shown itself far too supple, far too adjustable!" As to the extension to international exchanges of the credit system applicable internally, M. Rueff points out that there is a great difference. Internally, if repayment of credit is demanded, the non-renewal of loans provides the required means for repaying. Internationally, if loans on the New York market are not renewed, they will not provide foreign exchange to repay the lenders. In the first internal case, credit is self-liquidating. In the second international case it is not.

III IF WHEAT AND STEEL—WHY NOT GOLD?

Is it really impossible to change the price of gold, when all prices have doubled since it was fixed in 1934? How much wheat or steel would be produced today if they were sold at their 1934 prices?

Some critics fear that if gold were revalued now it would have to be revalued again later; the price of gold cannot, they argue, be changed every generation. To them, M. Rueff replies that so long as the gold standard is maintained, there can be no discrepancy between the needs and the existing amount of liquidity. It is only because the gold exchange standard has been substituted for the gold standard that the amount of gold monetary reserves does not correspond to monetary needs, depending on economic expansion as well as on the increase in prices. In such a situation, the only options available to monetary policy are either drastic deflation, reducing prices by half, which would result in a catastrophic depression and world-wide unemployment; or an adjustment to the new price level, which means increasing the price of gold. A return to the gold standard would end the distortions that the gold exchange standard creates.

Other critics say that a change in the price of gold would

be inequitable. But is it equitable to give anybody producing steel or coal twice the weight of gold that he would have received before the war for its production?

The change in the price of gold would halve the amount of gold that foreigners could demand from the USA against their dollar balances. Would that be injurious to the USA or her creditors? Would it not be to the advantage of both?

Many Americans consider that to change the price of gold would be discreditable on the part of the USA. But no gold clause covers the bulk of the dollar balances, and to agree to such a clause would be a free gift, entirely unjustified, to foreign lenders at the expense of the US taxpayers. Furthermore, a debtor's first duty is to maintain his ability to repay his debts. Is it less discreditable to repay the "paper gold" (that under present pressures will soon be paper only) than frankly to recognize the change in the purchasing power of the dollar resulting from the doubling of all prices since 1934? No one can question the legitimacy of such a change since a procedure for making it is actually laid down in Article IV, Section 7 of the Articles of Agreement of the International Monetary Fund. It was introduced into the agreement on the joint insistence of the USA and the UK!

Some critics urge that an increase in the price of gold would unduly favour the USSR. But the USSR also exports coal. Would it make sense to reduce the price of coal in the USA to its 1934 level in order to diminish the purchasing power that the USSR derives from its coal exports? Furthermore, all the evidence suggests that the cost of gold is high in the USSR.

Other critics do not want to do South Africa a favour. They are generally the same people who fear an insufficiency in gold production. They apparently see no contradiction in urging greater production while simultaneously refusing to pay its price!

I believe that the reform of the international monetary system on the lines proposed by M. Rueff would bring about a substantial lowering of world interest rates, would boost investment possibilities, and send an immense wave of expansion surging all over the world. M. Rueff remains confident that the reform will have to be carried out—irony of ironies—as in 1934 when none other than President Roosevelt ended the world depression by raising the price of gold from \$20 an ounce to the present price of \$35.

The only question is whether international monetary reform will be carried out in time to avert a world crisis—or whether it will follow one.

What an East African Community Means

MADAN M. SAULDIE

WHILE A political federation of east African countries of Kenya, Uganda and Tanzania, is still a distant dream, the coming into being on December 1, of the East African Economic Community (EAEC) is positively a welcome step towards achieving that goal. A significant aspect of this agreement is that it has not only salvaged an almost collapsed East African Common Market, existing since 1963, and saved the much older East African Common Services Organization (EACSO), but also strengthened them and put them on a sound, though a rather new, footing. In an age in which economic communities are a craze all over the world—the emergence of such an entity in a relatively less developed region, must hearten many fellow developing areas in Asia, Africa and Latin America.

The treaty of co-operation which set up the EAEC was signed on June 6 last year by Presidents Jomo Kenyatta of Kenya, Julius Nyerere of Tanzania and Milton Obote of Uganda. The Community will have its headquarters in Arusha, Tanzania, and, broadly speaking, provides for decentralization of the three countries' common services and the strengthening of the common market between them. It will make the benefits of the market more evenly applicable throughout east Africa. An East African Development Bank, to be located in Kampala, Uganda, will be set up which will direct investment mainly to Uganda and Tanzania—comparatively poor neighbours of Kenya—to "catch up" with their third partner.

The Community is the result of recommendations made

EASTERN ECONOMIST ANNUAL NUMBER 1968

This year's Annual Number of EASTERN ECONOMIST analyses the present state of the economy in terms of the recession and the prospects of recovery. It discusses the political and economic factors, both domestic and foreign, which have a bearing on the next stage of our planning and development.

A special feature of this Annual Number is a section devoted to the progress and problems of some of our major industries. An effort has been made in this section to define the specific issues facing these industries in terms of national needs and capabilities.

Profusely illustrated with charts and colour graphs and containing a useful compendium of statistics, the Annual Number is priced Rs 10 per copy. It is available at all the leading bookshops and can also be had directly from the office of EASTERN ECONOMIST, United Commercial Bank Building, Parliament Street, New Delhi.

New subscribers, who will enter their subscription for 1968 before March 31, 1968, will be entitled to the Annual Number free of cost.

by the UN-sponsored commission, headed by a Danish economist, Prof Kjeld Philip, which inquired into the working of the East African Common Market and the EACSO. The new Community takes over the former common services except for four which would be self-accounting under statutory corporations—the railways, harbours, east African airways and posts and telecommunications.

The major provisions of the treaty of the Community are: a pledge to maintain a common customs tariff; to evolve uniform excise tariffs, and eliminate limits on the quantity of goods exported from one country to another (apart from a limited special list). A transfer tax system will enable individual countries to make up for a lack of balance in their east African trade.

Transfer Tax

Ever since the three countries had attained independent nationhood, there had been a tendency towards breaking up whatever common links existed between them—the break-up of their common currency board and the emergence of three different national currencies some time back had definitely set the pace for it. This was so because, most of the industries and even the headquarters of the East African Organization, were located in Kenya, much to the discomfiture of Tanzania (which at least had a port of its own) and landlocked Uganda. The Commission had, therefore, tried to seek ways by which more benefits could be secured for the less developed of the three countries. In this respect, the provision of the transfer tax provides a kind of protection against concentration of industries in Kenya. Under this system, Uganda and Tanzania would be able to impose taxes on goods entering their countries which had been manufactured in Kenya. Tanzania and Uganda would also be able to impose taxes on goods manufactured in the other country, but Kenya would not be able to impose tax on goods

in either of the other two countries. It is hoped that the tax will encourage foreign investments in Uganda and Tanzania, and in the process, help these countries to develop rapidly during the system's eight years' stipulated duration. Kenya, meanwhile, will continue to pay more revenue than the other two countries, into the General Fund Pool, as she had done in the past.

Although the current enthusiasm for the establishment of the Community has attracted Zambia and Somalia—more might come forward later—to seek its membership, its functioning may not be as cut-and-dried a process as its authors appear to envisage. For one thing, it is true that east Africa has a greater drawing power for new industry and offers far more viable business prospects than do three fragmental markets, none of whom singly can support large units of manufacture to offer worthwhile markets in terms of purchasing power. But attracting new industry to the region is likely to benefit mainly those areas where industry already exists. Secondly, the existence, as at present, of cash employment in Kenya, will continue to draw populations towards it and consequently dissemination of funds to the outermost areas will be limited. This particularly affects Tanzania which prohibits its populations to work in neighbouring countries and itself is a predominantly agricultural country. Thirdly, Tanzania's tariff revenue forms an important part of its budget and if Kenya and Uganda between them supply most of Tanzania's wants, the latter will have lost a valuable source of revenue. These are only some of the many other difficulties that might have to be encountered in the working of the Community. A greater hurdle may, however, be of political rather than economic nature. Different political postures offered by the three countries, can cause difficulties in the conduct of international trade and economic relations of individual countries. Moreover, the idea of an east African federation will have to be shelved, if not given up, for the time being.

The moving fingerprints

IF, AS many in the capital seem to believe, the Prime Minister now feels that she is safe for the duration—or longer—, it becomes all the more difficult to justify her obvious attempt to pack the new Congress Working Committee with men from her 'kitchen cabinet'. The Congress president deserves some praise for having offered at least partial resistance to Mrs Indira Gandhi's pressure tactics. It is good that Mr Nijalingappa, at this early testing of his fibre, has proved only flexible and not feeble. The Prime Minister however is a woman and the female of the species is not known for letting well alone. I should be pleasantly surprised indeed were Mrs Gandhi to cultivate the wisdom of letting Peter keep what is his so that Caesar may be able to hold on to what he (or she) has. Last week I suggested that, for the good of the Congress party and the country, the Congress president should not meddle with the business of administration at the centre or elsewhere. On the same reasoning, I would plead that the Prime Minister too should refrain from seeking additional personal and political security through turning the party high command into a rubber stamp.

The nomination of Mr Atulya Ghosh to the new Congress Working Committee suggests that the Congress party is convinced that it has not lost its use for "boresism". Coming in the wake of Mr M. Ananthasayanam Ayyangar's forceful denunciation, recently in 'The Hindustan Times', of Mr Kamaraj's alliance with Mr K.B. Sahay as the prime cause of the Congress party's rout in the last general election for the Bihar legislature, this reiteration of faith in local Tammany Halls by Mr Kamaraj's successor to the Congress "gaddi" may cause as much uneasiness with the Congress organisation as among outsiders who may still have some interest in the revival of the prestige and political fortunes of this party.

It is not to be doubted at all that Mr Atulya Ghosh is greatly disliked and deeply distrusted in practically all of the West Bengal. The impression now created that the Congress high command has chosen him to be its man in Calcutta is therefore bound to render the processes of a Congress come-back in the state more difficult besides creating complications for the Ghosh ministry in its already arduous task of winning the confidence and rallying the support of the people of West Bengal.

It is quite evident that central ministers—notably Mr Dinesh Singh, acting presumably for the Prime Minister—are keen on imposing on Mr Morarji Desai, in the formulation of his forthcoming budget, the collective discipline of a framework of the cabinet's beliefs and preferences. There is, of course, nothing objectionable in this. On the contrary, it would be a perfectly legitimate democratic practice for members of the cabinet to try to ensure that the budget and its policies, for which they are collectively responsible, are genuinely those of the government as a whole. I, personally, would watch the fortunes of this intra-cabinet debate or discussion with keen interest and I have a feeling that, if the battle is to be joined on the ground of the purely economic options open to the government, the Finance Minister should certainly be able to hold his own, especially as he has taken for Economic Affairs, Dr I. G. Patel, whose previous job was that of Chief Economic Adviser to the Government of India in the Ministry of Finance, is, incidentally, the first high official not belonging to the ICS to occupy a post of this authority in the Finance Ministry and a professional economist of the

front rank. He naturally does not suffer from the disadvantage to which a former Secretary for Economic Affairs in the Ministry of Finance, Mr L.K. Jha, now Governor of the Reserve Bank, confessed when he recently admitted at the Indian Economic Conference held in Madras that, as an administrator, he often found himself taking decisions without the benefit of the latest wisdom of the science of Economics.

Trying to project the thoughts or beliefs of dead men into living situations has seldom been a rewarding exercise and I am therefore rather amused at Rajaji's effort in a recent issue of 'Swarajya' to try to dissuade the SSP from continuing its agitation against English, by pleading that, had Lohia lived, he would not have countenanced such activities on the part of his partymen. Some of us might believe that Rajaji is mistaken in his assumption and I, for one, would freely confess that, all men being in any case mortal, it is just as well that Lohia is not now with us to make the current political confusion worse confounded. This apart, it is quite obvious that Mr Raj Narain, for one, is extremely unlikely to accept Rajaji as the authentic "bhashyakar" of the Lohia faith.

I reproduce from 'The Hindu' a report on an incident which took place in Coimbatore on January 14:

"A leading member of the local Dravida Munnetra Kazhagam today created a scene soon after the arrival here of the delegates to the Second World Tamil Conference by tearing off the name-boards of buses engaged to take the visitors round the town, where they fulfilled a number of engagements in the course of their stay today.

"What provoked the DMK leader was the christening of the buses belonging to a private transport company after the rivers in the north. The buses, which had been tastefully decorated with fragrant jasmynes and roses, had been given the appellations, Ganga, Jamuna, Sindhu, Narmada, Saraswathi, Godavari and Kaveri and were parked in front of the Coimbatore Railway Station with their names written on cloth and displayed on their panels. A few minutes before the delegates, who arrived here this morning from Thanjavur by a special train, came to board the buses, the DMK leader came there and tore to pieces all the name-boards on the buses, except the one bearing the name Kaveri.

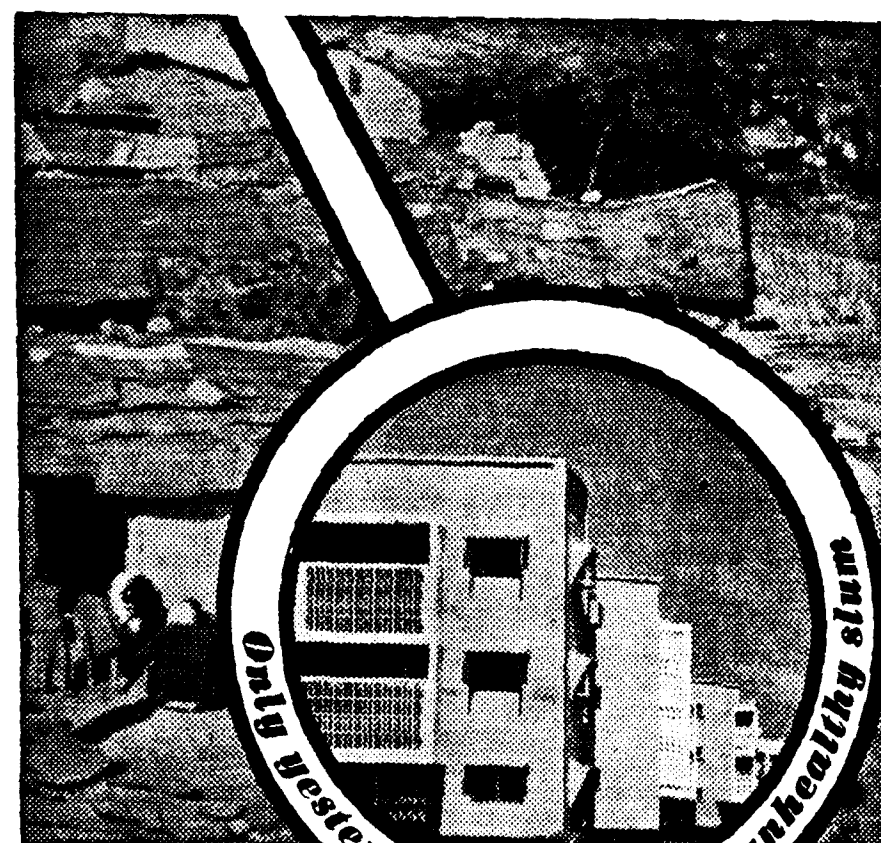
"He said the buses should have been named only after the rivers of the south to befit the occasion and in the existing circumstances in Tamil Nad the display of names of north Indian rivers would rouse the feelings of the people. The officials, who were obviously embarrassed by his action, remained passive spectators."

It is right to recall in this connection that one of the immortals of the Tamil language, literature and culture (whom the DMK mandarins presumed to honour by putting up a statue in Madras city a few days ago) was Subrahmanya Bharathi and that a couple of popular lines from one of his poems run somewhat like this.

"On the moon-lit waters of the Sindhu (this was before partition), boating in the company of young maidens from Kerala, composing songs in Telugu...."

That was Bharathi's grand conception of a Tamil view of India's unity and the cultural and social heritage of India's children.

V.B.



ASP/LIC/PR-8

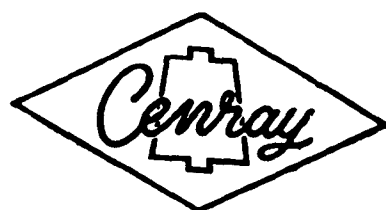
What was once an ugly slum, is now a well-planned housing colony. All over the country, new residential colonies are springing up, bringing improved living standards and public health amenities to previously neglected areas. Much of this progress has been made possible through LIC investments. Year after year, LIC aids housing progress through loans to State Governments for housing schemes, schools and other welfare projects. In other spheres of development too—transport, agriculture, and industry—LIC investments play a vital role. LIC invests over Rs. 3 million every day to better the standard of living.

These were some LIC investments As at 31st March, 1967:	
Loans to State Govts. for Housing Schemes	Rs. 83.33.74 lakhs
Loans to Co-operative Housing & Finance Societies	Rs. 29.41.50 lakhs
Cement	Rs. 9.92.47 lakhs
Electricity	Rs. 12.76.37 lakhs
Iron & Steel	Rs. 17.07.53 lakhs

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Trade Winds

EXPORT PROMOTION SEMINAR IN MADRAS

A SEMINAR on export promotion, sponsored by the Hindustan Chamber of Commerce, was inaugurated in Madras last week by Mr L. N. Birla, President of the Federation of the Indian Chambers of Commerce and Industry. Mr Birla suggested a number of measures to promote India's exports, including the setting up of an institution in our country like the Export and Import Bank of America which could help our exporters in selling on deferred payments to developing countries in the Far and Middle East and also help Indian industries to participate in joint ventures in these areas, and the government allowing our exporters to retain a part of their foreign exchange earnings. Dealing with the problem of export promotion in the international setting, Mr Birla quoted figures to show that the purchasing price scale of primary product exports from developing countries had been constantly declining but the export value of manufactures from developed countries was rapidly rising. He hoped that the second UNCTAD at New Delhi, unlike the Kennedy Round negotiations, would be able to move from the stage of deliberation to practical action to remedy imbalances in world trade.

UCO BANK CELEBRATES SILVER JUBILEE

On January 6 this year the United Commercial Bank Limited completed its 25 years of existence. To celebrate its silver jubilee a colourful function was organised last week in Calcutta. Among the distinguished gathering were the Chief Minister of West Bengal, Dr P. C. Ghosh, Mr Ramaswami Mudaliar, and several leading industrialists and businessmen. Speaking on the occasion, Mr G. D. Birla, who founded the bank and spearheaded it with distinction for its first 21 years, to make it one of the leading credit institutions of the country, fervently hoped that the bank, under its new board of directors and management, would continue to contribute its mite to the endeavour to raise the standards of living of our people and to build an affluent society. Now the fifth largest scheduled commercial bank in our country, the United Commercial Bank was set up in 1943 with a share capital of Rs 1 crore (which, incidentally, was over-subscribed by as much as three-and-a-half times on the very first day the issue went on tap, setting up a record in the banking history in India). The paid-up capital of the bank, which was doubled only after two years of its working, now stands at Rs 2.80 crores. Its total deposits exceed Rs 210 crores and the number of depositors exceeds six lakhs. The bank now serves the country through a network of 267 branches with a staff of over 7,000. Besides, it has nine overseas branches, notwithstanding the 26 branches which it lost to Pakistan and Burma. Indeed, the Uco Bank was the first among the leading Indian banks to enter the field of foreign exchange business; its foreign bills business now exceeds Rs 10 crores.

BOARD OF TRADE RECONSTITUTED

The Board of Trade has been reconstituted under the chairmanship of the union Commerce Minister. The Deputy Minister of Commerce will be the Deputy Chairman and the Commerce Secretary its Executive Vice-Chairman. The reconstituted board, which will have a tenure of two years, will have 30 members. The following are the members: Mr Khandubhai K. Desai, MP, Mr L. N. Birla, Mr C. A. Pitts, Mr P. A. Narielwala, Mr K. M. D. Thackersey, Mr G. T. Kamdar, Mr B. P. Patel, Chairman, STC, Mr T. P. Singh, Chairman, MMTC, Mr K. K. Birla, Mr M. A. Chidambaram, Mr R. P. Goenka, Mr Dharamsey Khatau, Mr Kasturbhai Lalbhai, Mr S. L. Kirloskar, Mr D. C. Kothari, Dr P. S. Lokanathan, Mr K. N. Modi, Mr Mohd. Yusuf, Mr K. N. Mookerjee, Mr B. K. Shah, Mr P. L. Tandon and Mr Naval Tata. A representative of the Reserve Bank of India and four officials representing the Gov-

ernment of India are also members of the Board. The Joint Secretary (Export Promotion), the Chief Controller of Imports and Exports and Commissioner, Civil Supplies, will function as Secretaries of the Board. The Board will concern itself mainly with problems and policies relating to the development of the country's internal and foreign commerce. It will make recommendations to the government from time to time, with particular reference to (1) expansion of production bearing on import savings and export earnings, (2) product development and adaptation with a view to the expansion of overseas sales, (3) improvements in marketing mechanism and media, including the extension of state trading, (4) provision of commercial services for the benefit of the commercial community and (5) adoption of sound trading practices with a view to safeguarding the interest of consumers.

I.D.A. FUNDS BEING REPLENISHED

The President of the World Bank, Mr George Woods, announced last week that he was making fresh proposals to the developed countries to donate \$1,200 million over a period of three years to enable the International Development Agency to start lending again to developing countries. Under the scheme the IDA would continue to maintain its present system of world bidding for procurement of goods and services. Payments by the developed countries, which come to \$400 million per year, will begin to be made in the fiscal year ending June 30, 1969. While the previous rate of replenishment of IDA funds was \$250 million per annum, and the World Bank President had a new rate of a billion dollars, the rate now proposed is considered significant in view of the austerity measures taken recently by two principal donors, viz. Britain and the USA.

TRADE ADVISORY COUNCIL

The Government of India has set up an Advisory Council on Trade in place of the Export-Import Advisory Council. The union Commerce Minister is the Chairman of the Council and the Deputy Minister of Commerce its Deputy Chairman. The new body whose functions cover not only the field of exports and imports but also problems of internal trade will have an initial tenure of two years from January 1, 1968. The Advisory Council on Trade will review, twice a year, the performance of the country's economy in its commercial aspects, consider problems relating to the expansion of exports, the regulation of imports, the operation of import and export trade controls, the working of commercial services, with particular reference to export marketing and export assistance, the organisation and expansion of the export sector of the economy, and the arrangements in regard to internal trade, with particular reference to the procurement, sale and distribution of essential commodities. The members of the Council include four Members of Parliament, namely, Mr S. R. Damani, Mr J. Jamal Moideen, Mr R. P. Khaitan and Mr A. G. Kulkarni, seven representatives of commercial and industrial organizations, the chairmen of the STC and the MMTC, the chairmen of the various commodity boards, three representatives of research and development organizations, a representative of the Reserve Bank and 25 non-officials.

ADVISORY COMMITTEE ON LICENSING

A sub-committee of the Central Advisory Council of Industries has been set up to advise the government about the general principles to be followed in issuing licences for new undertakings or substantial expansions. The sub-committee will also review all licences issued, refused, varied, amended or revoked from time to time. Headed by Mr P. L. Tandon, its other members will be: Mr L. N. Birla or his nominee, Mr C. A. Pitts, Mr B. D. Somani, Mr Keshub Mahindra, Mr M. A.

Fazalbhoy, Mr S. R. Vasavada, Mr S. S. Mirajkar, Mr Manohar Kotwal and a Member of Parliament (to be notified later).

BIRLAS' PAPER PROJECT IN KENYA

The Government of Kenya has approved the feasibility studies submitted by Birla Brothers for setting up in Kenya a Rs 20-crore paper mill, the biggest Indian sponsored venture abroad. Final negotiations are expected to be held soon on the partnership plan for the project. The project has the blessings of the International Finance Corporation. Scheduled to commence production by 1970-71, the project will mark a major breakthrough in India's efforts at economic collaboration with other developing countries through joint ventures. The negotiations between the Indian firm and the Kenya government began as long ago as 1957. The proposed plant will produce 45,000 tonnes of paper every year, enough to meet the entire demand in the country and also to export some portion of it.

RECORD RISE IN PRICE LEVEL

The general price level (the official index of wholesale prices) in India rose by 15.3 per cent in 1967 against 8.7 per cent in 1965 and 13.7 per cent in 1966. This record increase relates to the year as a whole. In fact, the price index declined by as much as 4.8 per cent in the last two months of the year. But for this decline, the overall annual increase would have been even higher than 15.3 per cent. The combined index for all commodities touched an all-time high in October 1967, when it stood at 221 (taken at 100 in the base year 1952-53). It then declined to 215.2 in November and fell further to 210.8 in December.

U.S. BUDGET

The US President, Mr Lyndon Johnson, in his state of the union message on January 17, called on Congress to end obligatory gold cover for the dollar, thus freeing the whole of American gold reserves to back the country's pledge to keep the gold price at \$35 an ounce. Under present laws, the government has to hold back 25 per cent of its gold holdings as backing for the dollar. Under the new budget, expenditure for 1969 will increase by 10.4 billion dollars to \$186 billion. The President has asked for a 10 per cent surcharge on income taxes; even this measure would leave a deficit of \$8 billion. While advocating the continuance of prudent foreign aid programmes and food-for-peace programmes, he pleaded vehemently with the developing countries to tackle their population problems.

U.K. ECONOMIC CURBS

In the wake of the devaluation of the pound and other steps taken recently by the United Kingdom to set its economic house in order, the British government announced last week some additional follow-up measures. It will withdraw by 1971 all its military forces outside Europe and the Mediterranean. The cancellation of its order for 50 American F-III bombers will save Britain a sum of £400 million. Free medicine scheme at home has been abolished, with some exceptions. Supply of free milk in secondary schools has also been withdrawn. Other economy measures include a lower budget on education, scaling down of the civil defence force, disbanding of fire-fighting volunteers and some sections of the part-time territorial army.

INSTITUTE FOR FOREMEN

Under an agreement signed in New Delhi last week, West Germany will help India in the setting up and running of an institute at Bangalore for the training of foremen. The foundation stone of the institute was laid this week by Dr Hans Otto Schwarz, Minister of Economics of the Land (State) Baden-Wuerttemberg, who was here in connection with the signing of the agreement. While the initial target of the institute is 50 production-foremen per year, at full capacity it

is expected to turn out 100 foremen per year. It will be the aim of the institute to promote technical progress by training Indian nationals as production foremen for metal and electro-technical industries. Their training period in full-time courses will be one year. There will also be part-time and evening courses in various technical fields. Besides the 50 acres of land, which has been donated by the Mysore state government, the Indian side will provide buildings and those parts of the machinery which can be available in India. The institute will have an Indian director and teachers, all of whom will receive one-year training in West Germany. The West German share, amounting to DM 50 million, will constitute technical equipment, the cost for the German project leader and instructors and the cost of the training of the Indian teachers in Germany.

TRACTOR MANUFACTURE DELICENSED

New tractor manufacturing units henceforth will not require a licence under the Industries Development and Regulation Act, 1951, nor will the existing units have to seek permission to expand or diversify production. The decision has been taken by the Government of India to augment production of agricultural tractors and power tillers the installed capacity of which is not sufficient to meet the country's growing demand. By 1970-71, the demand for tractors is expected to be in the region of 40,000 and that of power tillers 50,000 per year. At present, five manufacturers have been licensed to manufacture 30,000 tractors per annum in the range above 20 HP. There is no capacity for tractors in the 20 HP category or below.

BAN ON TYRE AND TUBE INDUSTRY GOES

The Government of India has removed the automobile tyres and tubes industry from the banned list for licensing purposes. Tyre and tube manufacturers will now be permitted to apply for licences to start new units or substantially expand existing units. New units will, however, have to give an undertaking that they will be willing to export 10 per cent of

Eastern Economist 20 Years Ago

JANUARY 23, 1948

Cloth control has been abandoned. In the whole history of Government's fortuitous and futile textile policy, this constitutes, perhaps, the one and only straight decision. Its merit is that it once and for all removes the uncertainties and, if others play the game, the threat of the reimposition of control for which power has been retained by the Government, may not matter much. In any case, the onus and the responsibility is now shifted on to the industry. In that light, the decision to decontrol may be welcomed although one may still feel that the Government's explanation for this reversal of policy is not convincing. It has been pointed out that decontrol has been rendered inevitable by the difficulties in the procurement of long-staple cotton from Pakistan which contingency should have been visualised in November and because of the sharp rise in prices of raw cotton which has occurred during the past few weeks which factor was also operative in November last. The truth is that the cumbersome and complex, almost unworkable, plan evolved in November-December last year had no chance. The size of the Equalisation Fund was an unknown quantity and it was anybody's guess whether it would be able to meet the calls that were to be made upon it. There was, thus, only one alternative and it is fortunate that the Government have seen, albeit belatedly, the need for a clear-cut policy.

their production. Permission to expand substantially will be allowed to only those units which have a good export performance, a good record of executing supplies to the government, and have fully implemented licences already issued to them. This liberalisation has been necessitated by the current severe shortage of tyres and tubes. Labour trouble in the Firestone plant, which accounts for 25 per cent of the country's tyre production, has seriously affected supplies.

SCOOTER TYRES ESSENTIAL COMMODITY

Scooter tyres and tubes have been declared essential commodities under the Essential Commodities Act, according to a notification issued by the Government of India. The notification will cover the tyres and tubes used by the three-wheeler auto-rickshaws also. The declaration is expected to enable the state governments to exercise better control over the price and distribution of scooter tyres and tubes.

FAMILY PLANNING

A three-day family planning seminar, attended by health secretaries and family planning officers for states, concluded in New Delhi last week. It was recommended at the seminar that during 1968-69 loop insertions should be performed at the rate of four per 1,000 population, sterilizations six per 1,000 population and use of conventional contraceptives should reach a target of six per 1,000 population. The seminar opined that a target of six per 1,000 population. The seminar opined that Lippe's Loop was the most satisfactory contraceptive and its use should be accelerated. In view of the considerable shortage of lady doctors in the country, particularly in rural areas, age of lady doctors in the country, particularly in rural areas, the states were advised to consider training of public health nurses and lady health visitors in the technique of loop insertions, following the practice obtaining in Haryana and Punjab. The view was also expressed that a doctor should not perform more than 20 sterilization operations per day. The seminar recommended that a massive distribution programme of condoms should be arranged in rural and urban areas. Services of six commercial firms would be utilised for this purpose. In addition, condoms would be sold by depot holders at the rate of three condoms for five paise. Free distribution of condoms through governmental and other agencies would also be continued. The seminar recommended that state governments should expedite establishment of all approved centres to meet their training load. Co-ordination should be ensured among the state training centres, central family planning field units and district training cells. Mr Govind Narain,

union Health Secretary, who also addressed the seminar, stated that the Federation of Indian Chambers of Commerce and Industry had agreed to lend full support to the programme. The Indian Chamber of Commerce was actually doing excellent work in Calcutta, Bombay and Kanpur. Some private sector undertakings were paying additional compensation varying from Rs 100 to Rs 200 to each of their employees who underwent sterilization operation.

EXPORT BY CO-OPERATIVES

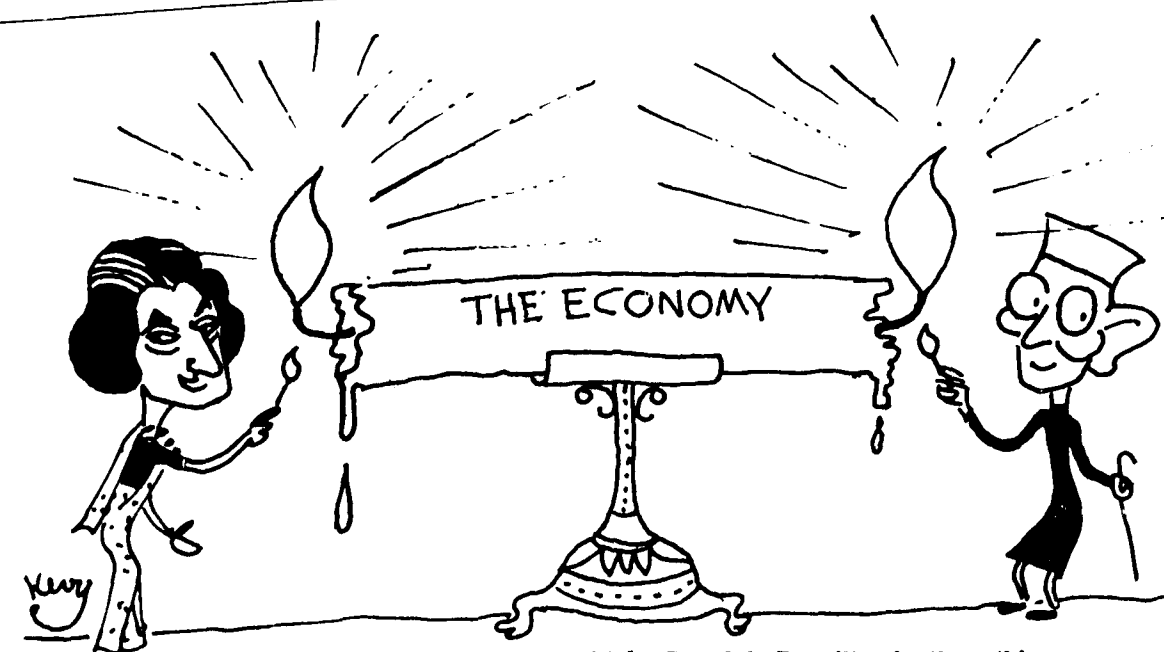
There has been a progressive increase in the export business of Indian co-operatives during the past few years. In 1966-67 they exported agricultural produce (consisting primarily of pulses and a few types of fruits and vegetables, tobacco and copra cakes) worth Rs 191.47 lakhs, which is nearly double the previous year's figure. Co-operatives have now a substantial share in India's total exports of pulses. Their share in the export market of pulses was about 25 per cent in 1965-66 and 35 per cent in 1966-67. India's total exports of pulses was worth Rs 116 lakhs in 1965-66 and Rs 395 lakhs in 1966-67. Co-operatives handled over 75 per cent of the exports of bananas, valued at Rs 38 lakhs during 1966-67. Appreciable increase has also been recorded in the exports of coconuts and copra cakes in 1966-67. Exports were mainly to Ceylon, Mauritius, Kuwait, Malaysia, USSR, UK, Italy, Denmark, Switzerland and West Germany.

ASIAN DEVELOPMENT BANK

Switzerland has become a new member of the Asian Development Bank. Its subscription to the Bank's share capital amounts to \$5 million. Of the subscribed capital, one-half represents paid-up and the other half remains as 'callable shares'. Meanwhile, Japan has turned down the Bank's request for an increase in that country's contribution to the ADB from \$100 million to \$200 million. The first loan of the ADB amounting to \$5 million has gone to the Thai Development Corporation.

EMERGENCY ENDS

The state of emergency, which was declared in our country on October 26, 1962, in the wake of the Chinese aggression, was withdrawn on January 10. With this the three Articles of the Constitution (Nos. 14, 21 and 22) which were suspended are now fully operative. The Defence of India Rules will, however, continue to operate for six months to enable the central government to complete some of its half-finished actions.



For the first time since 1962 there will be Republic Day illuminations this year.

Company Affairs

UCO BANK

THE DIRECTORS of the United Commercial Bank Ltd have proposed a higher final equity dividend of eight per cent for 1967 as against seven per cent paid for the previous year. This together with the interim dividend of six per cent makes a total of 14 per cent for 1967 as compared with 13 per cent declared for the preceding year. The net profit during the year under review increased by Rs 1.34 lakhs to Rs 85.89 lakhs. The directors have raised the allocation to the reserve fund by Rs 0.90 lakh to Rs 18.20 lakhs while the appropriation to special reserve was stepped up to Rs 22.40 lakhs as compared with Rs 19.60 lakhs in 1966. The proposed final dividend will claim Rs 22.40 lakhs as against Rs 19.40 lakhs in the preceding year and it will be paid out of the special reserve. The interim dividend absorbed Rs 16.80 lakhs, the same as in 1966. The surplus of Rs 31.91 lakhs, subject to payment of bonus to staff, is carried forward as against Rs 3.42 lakhs brought in. In the previous year, a sum of Rs 27 lakhs was provided for bonus to staff and Rs 5 lakhs for silver jubilee celebration fund.

DELHI CLOTH

The Delhi Cloth & General Mills Co. Ltd is offering for public subscription 320,000 sixth redeemable cumulative preference shares of Rs 25 each for cash at par. The preference shares will be carrying an interest of 9.5 per cent per annum and they are redeemable at par not earlier than 12 years and not later than 17 years from the date of allotment, the exact date of redemption being at the option of the company. A sum of Rs 15 per share is payable along with the application and the balance of Rs 10 per share on allotment. Application must be for a minimum of 10 shares or multiples thereof. The entire public issue has been underwritten. The subscription list opens on January 29 and will close on February 7 or earlier at the discretion of the directors, but in no case earlier than February 1, 1968.

The company has constantly expanded, diversified, and developed its lines of manufacture. Recently it has received an industrial licence for setting up a fertilizer complex at Kota in Rajasthan, for the manufacture of nitrogenous fertilizers. The capacity of the plant will be 240,000 tonnes of urea per annum. The Japanese firms, Messrs Mitsubishi Shoji Kaisha Ltd and Messrs Chiyoda Chemical Engineering & Construction Co. Ltd, will be supplying the know-how for the manufacture of urea.

Construction work is progressing satisfactorily. Orders for plant and machinery have already been placed with foreign suppliers. Installation of plant and machinery is expected to be completed by the end of September. The plant will be on trial production by the end of October 1968 and it is expected to reach optimum output by July 1969.

The capital outlay on the project is estimated at Rs 25.11 crores, out of which the foreign exchange component will be of the order of Rs 16.04 crores. The proceeds of present public issue will be utilised for meeting a part of the rupee cost of the project.

ASSOCIATED ELECTRICALS

The directors of Associated Electricals Industries (India) Ltd have recommended an equity dividend of 13.5 per cent on the 14 lakh old shares for the year ended October 31, 1967. The company issued seven lakhs equity shares of Rs 10 each to the public in April 1967, at a premium of Rs 5 per share. These shares rank for dividend from May 1, 1967, and the dividend on these new shares works out at 6.75 per cent for 1966-67.

According to the preliminary working results, the company during the year under review has earned a higher pre-tax

profit of Rs 80.30 lakhs as compared with Rs 75.25 lakhs in 1965-66. The appropriation to taxation reserve was raised marginally by Rs 1.23 lakhs to Rs 51.50 lakhs. This leaves a net profit of Rs 23.80 lakhs as against Rs 25.03 lakhs in the preceding year. After taking into account Rs 88,400 brought in from the previous year's account, the balance available for appropriation amounted to Rs 29.63 lakhs. A sum of Rs 46,000 was transferred to development rebate reserve while general reserve was earmarked with Rs 5.60 lakhs. The proposed dividend will absorb Rs 23.62 lakhs.

A.C.C.

In his annual statement to the shareholders of Associated Cement Companies Ltd, the Chairman, Mr D. M. Khatau, has emphasised the need for a careful assessment of the demand for cement in the coming years. With the implementation of the schemes already planned and under way, the chairman felt, it would be possible to take care of the additional demand for cement in the next seven years viz. up to about 1974. The capacities, however, the chairman observed, were concentrated in certain regions and expansion plans were not such as to rectify the imbalance. To correct this, the chairman said, it was essential that future increases in capacity were properly located.

In view of the surplus in cement supply, the directors of ACC are also carefully considering the likely future demand for cement and the company's resources before embarking upon its second and third phases of the five-million-ton expansion programme. Immediately the ACC has a programme for establishing additional capacity of 2.7 to 2.8 million tonnes in the next few years. Out of the external resources required for the implementation of this first phase of the expansion programme, the consortium of four financial institutions had agreed to provide a term loan of Rs 10 crores. The fresh equity capital of about Rs 1.75 crores proposed to be issued to the existing shareholders in the ratio of one new share to every five shares held, will complete the external finances required for the execution of the expansion scheme. These right shares of Rs 100 nominal value will be issued at par. Rs 50 being payable on application about the middle of 1968 and the balance being called up later in one lump sum or in instalments as required. The new shares will rank for dividend from 1968-69 in proportion to the capital paid-up. The widening of its equity base will strengthen the position of the company and improve the prospects of its growth in the years ahead.

The cement industry has been pressing the government for a suitable increase in the price of cement. But the government has so far declined to review cement prices on the plea of holding down the cost of essential commodities. But if the cement industry was to operate purposefully and be capable of large-scale expansion, the chairman said, the case for an immediate increase in price would have to be considered on its merits.

POYSHA INDUSTRIAL

Poysha Industrial Co. Ltd, is offering for public subscription 35,000 redeemable cumulative preference shares of Rs 100 each at par. The preference shares will carry an interest of 9.5 per cent per annum and they are redeemable at the end of 12 to 15 years from the date of allotment. Full amount will be payable on application. The proceeds of the issue will be utilised for financing the additional capital expenditure for its new project as well as for meeting the additional working capital requirements. At present the company has three factories one at Thana in Maharashtra, another at Ghaziabad in Uttar Pradesh and the third one at Cochin in Kerala. The Thana factory commenced production in November 1966.

1967

ANOTHER RECORD YEAR FOR *Bata* INDIA EXPORTS

Over Rs 35 Million Earned in Foreign Exchange

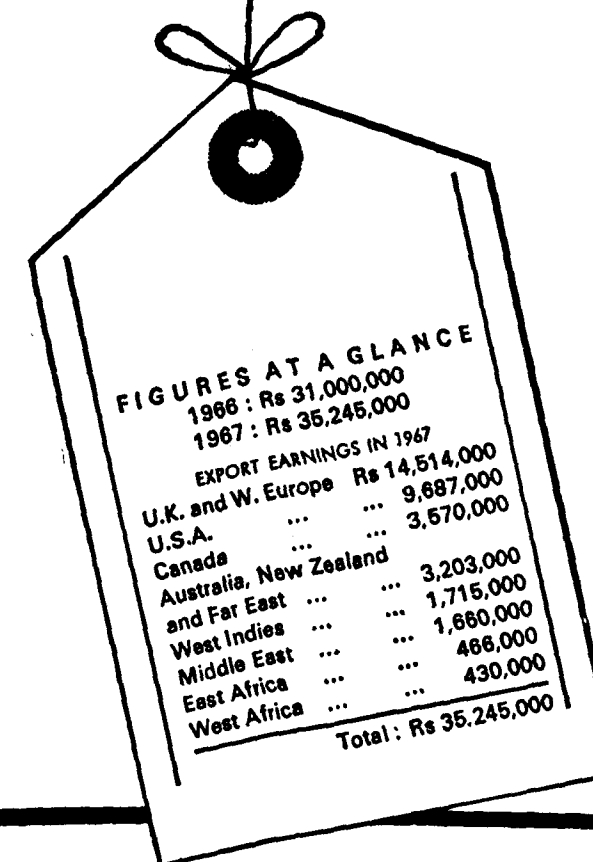
Despite a general economic recession in many overseas countries, Bata-India in 1967 exported more shoes than ever in its history and earned over Rs 35 million in foreign exchange.

This was achieved in the face of growing and keen competition from such major exporters as Japan, Hong Kong, Italy and

many others. The Middle East situation has added further problems with the re-routing of shipments and replanning of production to meet delivery schedules.

Bata-India products are sold to the most sophisticated markets: W. Europe, U.S.A., Canada, and others.

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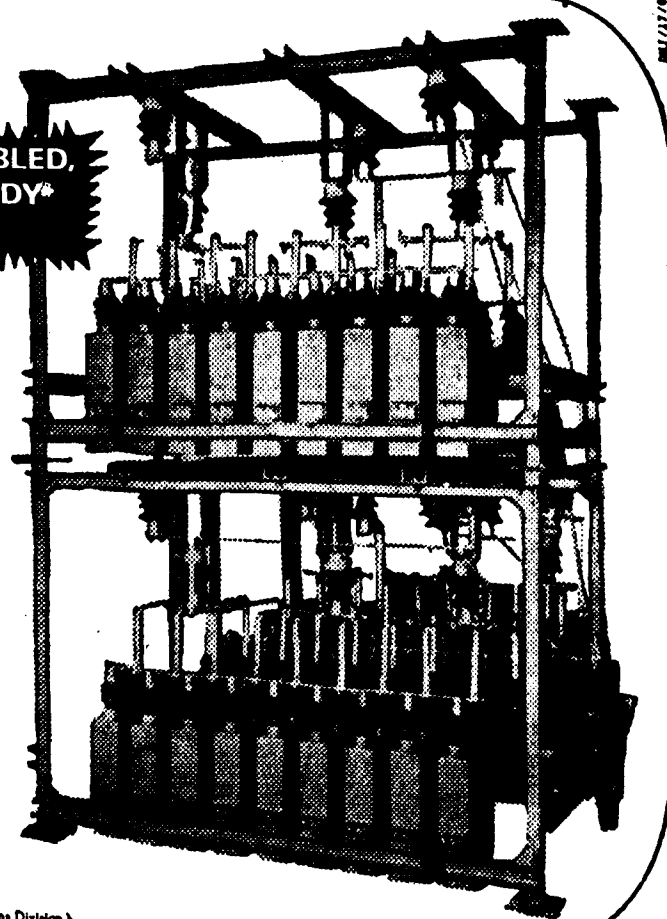
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(Issued by Publicity & Public Relations Division)



the Ghaziabad factory in January 1967 and the Cochin factory in August 1967. The aggregate production capacity of these factories is 1,00,00,000 containers a month on a single shift basis.

The company has an authorised capital of Rs 2 crores—Rs 1.50 crores in equity shares of Rs 10 each and Rs 50 lakhs in preference shares. The present issued and subscribed equity capital of the company amounts to Rs 1.10 crores. Its turnover increased from Rs 93.36 lakhs in 1962-63 to Rs 216.27 lakhs in 1965-66 but declined marginally to Rs 201.34 lakhs during the year ended March 31, 1967. The company maintained its equity dividend at 10 per cent during the years 1963-64 to 1965-66, but reduced it to eight per cent in 1966-67.

RALLIS INDIA

In his annual statement to the shareholders of Rallis India Ltd, the Chairman, Mr B. R. Tannan, has observed that the company would be able to hold the ground it has gained despite the current economic recession. Efforts are now being made by the company to improve and increase its manufacturing interests. The company of late has started marketing and distribution of consumer goods, though on a limited scale. The company is also making satisfactory progress in the implementation of its expansion plans. Searle India Ltd, in which Rallis holds 55 per cent of capital, is expected to begin the trial production of specialised chemicals by the middle of the current year. Protein Products of India Ltd, the company promoted by Rallis for the manufacture of gelatine, is expected to commence production in the second half of 1969.

Reviewing the performance of the various divisions, the chairman said that the engineering division was the worst affected by the recession. Despite a Rs 50-lakh increase in turnover to over Rs 3 crores, the profitability was lower. Ralliwolf, which is dependent on demand for power tools from the heavy engineering and construction units, suffered a reduction in profits by about Rs 6 lakhs. Rockwell India has had to be put on stand-by operation since November 1967.

The pharmaceutical division suffered a fall of five per cent in profit despite a rise of Rs 60 lakhs in sales. The benefit of the first full year of operation of Rallis arrangement with Tata Fison Industries for the sale of pharmaceutical products will be reflected in the company's working results during the current year. The 'merchandising' division once again made a satisfactory contribution to the group operating income.

ALBRIGHT, MORARJI & PANDIT

The Rs 2.25-crore phosphoric acid and industrial phosphates plant of Albright, Morarji and Pandit Ltd at Ambernath, Maharashtra, was inaugurated recently by Sir Owen Wansbrough-Jones, Chairman of Albright & Wilson Ltd, UK. This venture is a result of the collaboration between Albright & Wilson Ltd, UK,—the world leaders in the manufacture of phosphoric acid and phosphates—the Dharamsi Morarji Chemical Co. Ltd (DMCC)—the largest manufacturers of sulphuric acid and superphosphates in western India—and the House of Pandits. The plant, at present will have a capacity to produce 15,000 tonnes of P₂O₅ and 10,000 tonnes of sodium tripolyphosphates per annum. The factory also has a concentration plant for phosphoric acid with a capacity of 25 tonnes a day.

One of the principal raw materials required for the manufacture of phosphoric acid is sulphuric acid which DMCC will supply to the company from its large manufacturing facilities located close to the company's factory. The company will make available to DMCC 12,000 tonnes of concentrated phosphoric acid per annum for the manufacture of triple superphosphate. This is a unique feature of this collaboration whereby both the companies benefit by large-scale operational economies. Another distinctive feature of this collaboration is that apart from the benefits of technical know-how which Albright & Wilson Ltd will provide, the collaborators together hold 76.13 per cent of the equity capital of the company which

would ensure their sustained and substantial interest in its progress. The company has also plans to manufacture sodium Hexa-metaphosphate in due course. The products of the company will be marketed through Messrs. Morarji Pandit, a subsidiary of DMCC. The initial turnover of the company is expected to be of the order of Rs 2 crores a year which may later rise to about Rs 6 crores.

SYNDICATE BANK

The Syndicate Bank has started a tax service department at its head office with a view to assisting the clients of the bank in attending to their tax problems. The scheme broadly falls into two categories. In respect of those persons who belong to the fixed income group, the bank undertakes to process their returns of income and also to attend to issues that might be raised by the income-tax officer at the assessment stage subsequent to the filing of the returns. The other type of service is going to be in the form of tax advice, which will be taken to all categories of assesseees regardless of whether they have income from business or profession or not. This part of the scheme for the present consists of what may be broadly categorised as consultation. Such advice will be offered in writing in response to specific issues that might be raised by the assesseees. There is also a provision for informal discussion of the tax problems of the assesseees with the authorities of the bank as distinct from written advice.

CAPITAL AND BONUS ISSUES

Consent has been accorded to 12 companies to issue bonus shares exceeding Rs 1.10 crores. The amount of bonus shares ranges between Rs 70,400 and Rs 65 lakhs. The consents are valid for 12 months. Following are the details:—

Suhrd Geigy Ltd, Bombay, has been accorded consent to capitalise Rs 65 lakhs out of general reserve and issue fully-paid equity shares of Rs 500 each as bonus shares in the ratio of one for two equity shares held.

Amluckie Tea Co. Ltd, Calcutta, is given consent to capitalise Rs 11,91,400 out of free reserve and issue fully-paid equity shares of Rs 10 each as bonus shares in the ratio of two shares for every existing equity share and four shares for every existing preference share.

Sungma Tea Co. Ltd, Calcutta, has been granted consent to capitalise Rs 9,37,500 out of free reserve and issue fully-paid equity shares of Rs 10 each as bonus shares in the ratio of three for two held.

Krishna Steel Industries (Pvt) Ltd, Bombay, is allowed to capitalise Rs 5,37,500 out of general reserve and free reserve and issue fully-paid equity shares of Rs 100 each as bonus shares in the ratio of one for every 8.3 equity shares held.

Malleable Iron & Steel Castings Co. Pvt Ltd, Bombay, is permitted to capitalise Rs 5 lakhs out of general reserve and issue fully-paid equity shares of Rs 100 each as bonus shares.

Modern Construction Co. Ltd, Bombay, has been accorded consent to capitalise Rs 4 lakhs out of general reserve and issue fully-paid equity shares of Rs 1,000 each as bonus shares in the ratio of two for every five held.

Iron & Metal Traders (Pvt) Ltd, Bombay, is given consent to capitalise Rs 2.4 lakhs out of general reserve and issue fully-paid equity shares of Rs 100 each as bonus shares in the ratio of three for five held.

Golden Hills Estate Pvt Ltd, Madurai, is granted consent to capitalise Rs 2 lakhs out of free reserve and issue 2,000 fully-paid equity shares of Rs 100 each as bonus shares in the ratio of two for five held.

National Tiles & Industries (Pvt) Ltd, Bombay, is permitted to capitalise Rs 2 lakhs out of general reserve and issue fully-paid equity shares of Rs 100 each as bonus shares in the ratio of one for one held.

Excel Process Pvt Ltd, Bombay, is allowed to capitalise Rs 1.4 lakhs out of general reserve and issue fully-paid equity

shares of Rs 100 each as bonus shares in the ratio of two for five held.

Runglee Rungliot Tea Co. Ltd, Calcutta, is permitted to capitalise Rs 1.4 lakhs from revenue reserve and issue fully-paid bonus shares in the ratio of one for two held.

Navin Industries & Mercantile Corpn Pvt Ltd, Calcutta, is allowed to capitalise Rs 70,400 from general reserve to increase the paid-up value of the existing equity shares to Rs 40 per share.

LICENCES AND LETTERS OF INTENT

The following licences and letters of intent were issued under the Industries (Development and Regulation) Act, 1951, during the fortnight ended November 25, 1967. The list contains the names and addresses of the licensees, articles of manufacture, type of licences—New Undertaking (N.U.); New Article (N.A.); Substantial Expansion (S.E.); Carry on Business (C.O.B.); Shifting—and annual installed capacity.

During the Week ended November 18, 1967

LICENCES ISSUED

Machinery

M/s Elecon Engineering Co. Ltd, Vallabh Vidyanagar (Gujarat). (Vallabh Vidyanagar, Gujarat): Crushers—Rs 54 lakhs; Screens—Rs 12 lakhs; Feeders—Rs 5 lakhs. (N.A.).

LETTERS OF INTENT

Fertilizers

M/s Coromandel Fertilizer Ltd, 126, Sarojini Devi Road, Secunderabad. (Vishakapatnam, Andhra Pradesh): Urea and NP and NPK—20,000 tonnes (N) first phase—135,000 tonnes (N) second phase; Complex fertilizers—20,000 tonnes (P2O5) first phase—35,000 tonnes (P2O5) second phase; 30,000 tonnes (K2O) first phase—30,000 tonnes (K2O) second phase. (S.E.).

Textiles

M/s Reliance Jute Mills Co. Ltd, 9, Brabourne Road, Calcutta-1. (West Bengal): Carpet Backing Cloth—7,000 tonnes (100 broadlooms). (S.E.).

CHANGE IN NAMES (Owners or Undertakings)

(Information pertains to particular licences only)

From M/s Budge Budge Jute Mills Co. Ltd, (No. 1 Mill) to M/s Delta Jute Mills Co. Ltd, Calcutta Unit. Budge Budge Mills (No. 1).

LICENCES REVOKED OR SURRENDERED

(Information pertains to particular licences only)

M/s Mafatlal Fine Spinning & Manufacturing Co. Ltd, Navsari—Cotton Yarn; M/s Orient Spinning Mills (Pvt.) Ltd, Cuttack—Cotton Yarn.

During the Week ended November 25, 1967

LICENCES ISSUED

Machine Tools

M/s Zell-Ate Private Ltd, 43, Forbes Street, Fort, Bombay-1. (Lonvli, Dist. Poona, Maharashtra): Pneumatic Hammers up to $\frac{1}{2}$ ton capacity—150 Nos. valued at Rs 12 lakhs (N.A.).

Inorganic Heavy Chemicals

M/s Atul Products Ltd, P.O. Atul (Western Rly), Dist. Bulsar, Gujarat. (Atul, Dist. Bulsar, Gujarat State): Capacity after expansion—Caustic Soda, Caustic Potash—8,400* tonnes; Chlorine—7,424 tonnes; Hydrochloric Acid (32%)—11,400 tonnes. (S.E.). * Production of Sodium Sulphate to the extent of 2200 tonnes per annum is permissible within the total licensed capacity for Caustic Soda/Caustic Potash.

Insecticides

M/s Excel Industries Ltd, 184-87, Swami Vivekanand Road, Jogeshwari, Bombay-60. N.B. (Bombay, Maharashtra): Ziram—300 tonnes; Ferbam—300 tonnes. (N.A.).

Drugs & Pharmaceuticals

M/s Hoechst Pharmaceuticals Ltd, Dugal House, Backbay Reclamation, Bombay-1. (Bombay, Maharashtra): Terbolan Tablets—6 million tablets. (S.E.); M/s Tata Fison Industries Limited, Unicon Bank Building, Dalal Street, Fort, Bombay-1. (Calcutta, West Bengal): Lomodox 10% in 80,000 litres. Normal

saline. Lomodox 10% in 15,000 litres, 5% dextrose (low molecular weight Dextran Injection). (S.E.).

LETTERS OF INTENT

Electrical Equipment

M/s Murphy India Ltd, Dr Shirodkar Road, Opp. Hospital Avenue, Parel, Bombay. (Bombay)—Maharashtra: Carbon Potentiometers—1 million Nos; Band Change Switches—0.5 million Nos. (N.U.); M/s General Electric Co. of India Private Limited, Magnet House, Chittaranjan Avenue, Calcutta-13. (West Bengal): Loudspeakers—0.1 million Nos. (N.A.); M/s Telefunken India Ltd, K-87A, Hauz Khas, New Delhi-18. (Haryana)—Carbon Composition Resistors—20 million Nos; Ceramic Capacitors—12 million Nos. (N.A.); M/s Continental Devices, 14/5, Mathura Road, Faridabad. (Delhi Administration): Semi-conductor Devices (Transistors & Diodes)—9.4 million Nos. (S.E.); M/s Jai Hind Agencies (Regd), Willingdon Island, Cochin-3. (Kerala)—Wire Wound Resistors—5 million Nos. (N.U.); M/s Jaipur Metals & Electricals Limited, Near Railway Station, Jaipur. (Rajasthan): Variable Bang Condensers—0.5 million Nos; Band Change Switches—0.36 million Nos. (N.A.); M/s Mulchandani Electricals & Radio Industries Ltd, Sukh Sagar, Sandhurst Bridge, Hughes Road, Bombay-7. (Maharashtra): Electrolytic Capacitors—2.5 million Nos. (7.5 million Nos. after expansion). (S.E.); Loud Speakers—0.5 million Nos. (0.8 million after expansion). (S.E.); Paper capacitors, including Plastic Film (Polyester) Capacitors—5 million Nos. (15 million Nos. after expansion); M/s Waco Radio Electronic Industries, Sukh Sagar, Hughes Road, Bombay-7. (Maharashtra): Variable Gang Condensers—0.5 million Nos; Loudspeakers—0.3 million nos. (S.E.); M/s Telerad Private Ltd, Atlas Mills, Reay Road, Bombay-10. (Maharashtra): Potentiometers—1 million nos. (proposed capacity)—2 million nos. (after expansion); Electrolytic capacity—5 million nos. (proposed capacity)—8 million nos. (after expansion); Styroflex capacitors—5 million nos (proposed capacity)—7 million nos. (after expansion); Ceramic capacitors—7 million nos. (proposed capacity)—12 million nos. (after expansion); Variable gang condensers—0.75 million nos. (proposed capacity)—1 million nos. (after expansion); Carbon film resistors—20 million nos. (proposed capacity)—25 million nos. (after expansion). (S.E.); M/s National Ekco Radio & Engineering Co. Ltd, Ewart House, Bruce Street, Fort, Bombay-1. (Maharashtra): Variable gang condensers—0.7 million nos. (proposed capacity)—1 million nos. (after expansion); Carbon potentiometers—0.7 million nos. (proposed capacity)—1.25 million nos. (after expansion); Loud Speakers—0.5 million nos. (proposed capacity)—0.758 million nos. (after expansion); Band change switches—0.19 million nos. (proposed capacity)—0.50 million nos. (after expansion); Polyester/Styroflex capacitors—3 million nos. (proposed capacity)—5.5 million nos. (after expansion). (S.E.); M/s National Ekco Radio & Engineering Co. Ltd, Ewart House, Bruce Street, Fort, Bombay-1. (Maharashtra): Carbon Composition Resistors—20 million Nos. (N.A.); M/s Semi-Conductors Ltd, Harilela House, 36, Mint Road, Fort, Bombay-1. (Maharashtra): Thermistors/Varistors—1.2 million nos. (2 million nos. after expansion). (S.E.); Rescon Manufacturing Co. Pvt. Ltd, 43/1, Karve Road, Poona-4. (Maharashtra): Carbon film resistors—17.8 million nos. (proposed capacity)—25.0 million nos. (after expansion); Carbon Potentiometers—0.4 million nos. (proposed capacity)—0.7 million nos. (after expansion); Electrolytic capacitors—2.9 million nos. (proposed capacity)—5.0 million nos. (after expansion). (S.E.).

LICENCES REVOKED OR SURRENDERED

(Information pertains to particular licences only)

M/s Jai Bharat Trading Company, Delhi.—Diesel Fuel Injection Equipment; M/s R. S. Rekhchand Mohata Spg. & Wvg. Mills (P) Ltd, Hinganghat: Cotton Yarn; M/s Modi Spinning & Weaving Co. Ltd, Modinagar (U.P.): Acetate Rayon Yarn & other Intermediate Products.

BOOKS BRIEFLY

Japan's Economic Miracle

Small Industries in Japan: Ram K. Vepa; Vora & Co., Bombay; Pp. 237; Price Rs 16.

Japan was reduced to shambles in the second world war. Yet in the course of less than quarter of a century, it has risen phoenix-like from its ashes performing an economic miracle. The growth of small industries has played a vital role in this process of economic recovery.

This account of small industries in Japan was completed by Dr Vepa as a result of a fellowship awarded by the Asian Productivity Organization in 1966. The first three chapters of the book providing the political and geographical background, though useful, do not form its integral part. In the fourth chapter the author gives a detailed definition of small business in Japan. While most Asian countries confine the usage of the term to small industry, in Japan it is used to cover not merely industry but mining, trade and even services. In industry the total investment should not be more than 50 million yen (Rs 10 lakhs) and not more than 300 regular employees. In mining the respective if it is to be called small industry. In mining the respective figures are 50 million yen and 1000 employees; and in commerce and services 10 million yen (Rs 2 lakhs) and 50 employees. Thus the term small business often includes medium-ranking enterprises. When comparing the role of small industries in different countries, this vital difference has to be borne in mind.

Small enterprises in Japan constitute as much as 99.6 per cent in the manufacturing field of which 93.2 per cent are in fact petty enterprises with less than 30 employees. In the distribution field, only 0.5 per cent of more than 1.3 million the restores are large ones employing 50 persons or more. The remainder are small establishments 87 per cent of which employ less than 5 persons. In terms of employment 76 per cent of the workers are employed in small enterprises excluding those in agriculture, fishery and forestry. In terms of added value, in the manufacturing field, 58 per cent of the total added value is by large enterprises of 3000 billion yen (Rs 1500 crores) is by large enterprises and the rest by small business. The share of small industries in export trade of Japan is 51.5 per cent of the total. This in itself should give the reader an idea of the vital role played by small industries in Japan's economy and arouse his curiosity regarding their financing, organization, marketing, technology and relationship with big industries as also the lessons which we in this country can learn from the Japanese experience in the field.

Promotional Measures

The Basic Law of Small Enterprises of 1963 is the key-stone of all promotional policies of the government to develop small enterprise programme. Government's promotional measures are very elaborate. It is obligatory for the national, prefectural and municipal governments to follow various provisions laid down in the Act for helping small enterprises. The Act requires that facilities be provided for modernisation of equipment, improvement of techniques, rationalisation of management, suitable labour welfare facilities, prevention of excessive competition, rationalisation of sub-contracting, guarantee of orders and export promotion.

One of the significant techniques employed in Japan for strengthening small industries is the industrial assistance programme operated by the government. The industrial estates are operated by business co-operative associations and receive financial assistance from the government. Government loan assistance is made available for (i) land and its development,

(ii) plant and building and (iii) provision of common facilities. Elaborate terms for granting of loans are laid down. The industrial estates programme in Japan thus differs in many ways from similar programme in this country and other Asian countries and the author has clearly brought out the difference between the two. In Japan such industrial estates supported by government numbered 81 in 1964 in which 2714 small enterprises participated.

As regards finance for small industries, there is a well-developed system of financial institutions—some purely private, some semi-governmental and one purely governmental. The governmental and semi-governmental institutions have played notable part in assisting small enterprises which otherwise might not have qualified to receive financial assistance from purely commercial institutions.

The marketing techniques employed in Japan are largely borrowed from the west, notably from the United States. It is found that the ratio of advertisement cost to sale is the highest for business with total assets of 5 to 10 billion yen, but is only one per cent for larger business. It is the highest in the petroleum and chemical industries with 2.9 per cent.

Industrial Research

The growth of industrial research in Japan is of recent origin. The private industry has come to realise that research work is important for expansion of business and long-term planning for technological development. The ratio of funds for research and development to the general budget works out at 3.6 per cent as compared with 10.8 per cent in the USA and 6.3 per cent in the UK.

The author had occasion to study the two area development programmes, one (Chiba programme) to relieve the congestion in the Tokyo bay area and the other (Hokkaido development programme) to develop backward region. The author has pointed out certain lessons from the latter, namely the emphasis on infrastructure facilities, simultaneous development of agro-industries, high proportion of private investment and attention to welfare facilities.

Even as late as early 'fifties, Japanese industry was operating under conditions of low productivity and high unit cost, making it difficult for Japanese products to compete in world markets. The productivity movement in Japan started with exchange of professors, industrialists and trainees at all levels between the USA and Japan. This helped introduction of modern management techniques in top management, marketing, industrial engineering and material handling. Thus was initiated a "quiet revolution" which enabled Japanese industry to meet the challenge of the post-war world. This also brought about better relationship between labour and management, industry and academic bodies and promoted standardisation, specialisation and simplification.

Although small enterprises form an important component of the Japanese economy, they suffer from the problems of low wages and low productivity compared to large business thus giving rise to a dual structure in the economy. Wages in petty enterprises employing less than 50 persons are barely one-third of those employing more than 1,000 workers, while in terms of labour productivity, it is barely 16.9 per cent in petty enterprises with 1 to 3 workers as compared to those

having 1000 workers. To rationalise the wage structure the Japanese employers have improvised various allowances, monetary and non-monetary, to make up for low basic wages. Thus today an unskilled worker earns in all as much as 30,000 yen (Rs 600) per month while a skilled worker earns at least double that amount. The employers prefer payment of fringe benefits and special incentive allowances so that during bad times they have at their disposal a large area in wage costs which they could adjust depending on the volume of sales and profits they are making.

Perhaps the most important lesson according to the author which Japan can teach this country is in regard to the great cumulative impact which relatively simple improvements in technology can make. What needs to be specially noted is that these innovations do not require wide departure from the traditional methods nor do they require heavy capital outlays. Further, nowhere else except in certain aspects of agriculture are improvement returns on a unit investment likely to be more immediate than in the field of small enterprises. This is of great significance for this country with its price level continually moving up. Also, the pattern of industrialisation which Japan has adopted combining both labour-intensive indigenous and capital-intensive modern techniques is of immense significance in industrialisation programmes of other Asian countries. Japanese experience also indicates the need for a comprehensive legislation and approach in respect of promotional measures instead of spasmodic methods to help small enterprises effectively. Another lesson is the necessity of improving the technical competence and modernisation which is recognised as the key to higher productivity. The Japanese experience in the matter of sub-contracting and integrating small enterprises with big business also holds an important lesson for us. And lastly, as in Japan, in this country as well as other Asian countries, small industries will have to effectively organize themselves so as to obtain from government and society due recognition of their important role in shaping the national economy.

The author has failed to note and stress the most important lesson from the Japanese experience, that is, each country must devise its own technique and way of progress in all spheres including small-scale industries to suit its genius and that it cannot progress much by traversing the route by which some other country has progressed.

There is much repetition in the book and the analysis at times is of the routine type without much insight. The different aspects of the problem have not been properly co-ordinated.

INFLATION

The Menace of Inflation: Gyanchand; Published by Manaktalas, Bombay; Pp. viii+239; Price Rs 22.50.

Reviewed by A. S. SUNDAR RAJAN

The enormous expenditure incurred on public sector projects since the advent of planning has, no doubt, created the inflationary situation in the country. Consequently, the subject has attracted the attention of many economists here and abroad. In this book, Prof. Gyanchand has discussed in detail the menace of inflation, which to him, is a symptom of the malaise of the economy and not the malady itself. The monetary and fiscal policies of the government, instead of checking inflation, have only aggravated it, he says. Time and again he insists that the main cause of inflation is the excessive issue of currency by the central banking institution and the over-expansion of credit by commercial banks. He refutes the idea that inflation is the inevitable consequence of development.

The author is critical of the policies of the Reserve Bank

of India. He views that the constitution of the RBI on the lines of the Bank of England has put it at a disadvantage, particularly the bifurcation of the issue and banking departments into rigid compartments. "This has made any kind of independent approach and policy making in matters relating to currency, credit and prices extremely difficult and almost impossible". Having failed to maintain the price stability, the RBI has recklessly expanded money supply.

The author pleads that deficit financing should be discarded in favour of balanced budgets. In the last 15 years, huge investments have been made in the public sector, but shortcomings in their administration due to inefficiency have resulted in low financial returns in these units.

According to Prof. Gyanchand, practically no price policy has been pursued in this country. In spite of interventions, regulations and controls at various points, the government has failed even to hold the priceline, not to talk of bringing it down. Any sensible price policy must have relation to an incomes policy and to the cost structure of the industry.

The most degrading aspect of our inflationary economy, according to Prof. Gyanchand, has been the humiliating devaluation of the rupee. He says it is wrong to suppose that there was no alternative to devaluation. The alternative, of course, was to change our "orthodox policies" and cut down expenditure. The pressure on the balance of payments was not due to low exports but due to high imports, which could have been avoided.

The book has been extensively illustrated with statistical data.

AN EASTERN ECONOMIST PUBLICATION

INDIA'S PROGRESS SINCE INDEPENDENCE

A STATISTICAL BIRD'S-EYE VIEW

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

For copies please write to:—

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with a remittance of Rs. 6.50 (price Rs. 5.00 plus Rs. 1.50 towards packing and postal registration charges.)

COMPANY MEETING

THE ASSOCIATED CEMENT COMPANIES LIMITED

Summary of Chairman's Statement

The following is a summary of the statement issued to shareholders by Shri Dharamsey M. Khatau, Chairman. The Associated Cement Companies Limited, on the Company's working for the year ended 31st July 1967. The Annual General Meeting of the Company will be held on Thursday the 25th January 1968 at 4 p.m. at the Patkar Hall of S. N. D. T. Women's University, 1, Nathibai Thackersey Road, off Queen's Road, Fort Bombay.

POLITICAL AND ECONOMIC SITUATION

Our fourth General Election which saw the largest turnout of voters in human history went off peacefully enough, and resulted in a radical change in the functioning of the federal pattern of Government inasmuch as several non-federal Governments came to power in the States. This has inevitably led to certain stresses between these Governments and the Congress Government at the Centre, which have been heightened by open exhortations to violence and disregard of all authority by disruptive elements of some of these coalition State Governments, notably in Bengal. Furthermore, the political immorality of large-scale and multiple floor crossing in the legislatures not, except in very few cases, in defence of any basic principle but obviously to gain the loaves and fishes of ministerial office has done not a little to raise serious doubts in the mind of the common man as to the value of democratic institutions which can be so shamelessly perverted.

It is not surprising that in such conditions the law and order situation has generally reached a low ebb and, in some States, has frequently deteriorated to the point of mob rule with no security for the individual or for industrial and business enterprises whether in the private or the public sector.

On the economic front, the past year has been a period of tremendous strain. Millions of our countrymen have suffered untold hardship as a result of food shortages and the continued inflationary trend of prices of all essential commodities. Almost all industries have been seriously hit by the recession in demand on the one hand and soaring costs on the other. In many parts of the country, industrial discipline has virtually disappeared to add yet another obstacle to economic recovery.

One looks for a clear lead from those at the helm of the country's affairs as to how this economic recovery is to be achieved and how unhealthy political trends are to be checked, but one finds only hopeful expectations that somehow, thanks to a bountiful harvest, all will be well. The predictable failure of the Plans which formulated investments vastly in excess of available resources, seems to have inhibited resolute action. The oft-repeated saying that the first duty of a Government is to govern was never truer than today. I can only plead for firm Governmental policies firmly implemented and the restoration of conditions in which commerce and industry can flourish without undue control or interference. This is the essential prerequisite of economic buoyancy which alone can provide improved living standards for our people.

PRODUCTION AND DESPATCHES

The increase in production and despatches over the previous year would have been even higher but for the restricted supply of electric power at some of the Works where we purchase power and the shortage of wagons. However, it is

encouraging to note that, at regular quarterly intervals, the Secretary, Ministry of Industrial Development and Company Affairs and the Directorate General of Technical Development now look into the causes responsible for retarding production and growth in major industries with a view to eliminating bottlenecks. This is a laudable step and should help in maximising the production of cement and its transport to the consumer.

WORKING RESULTS

Although the turnover and gross profits were higher than last year, the net profits, after making statutory transfers to reserves, are lower by as much as Rs. 46 lakhs because substantial increases in the cost of production have eroded the Company's capacity to lay by the amounts required for statutory reserves. The Cement Manufacturers' Association urged Government to review the cement price pattern. It was explained that the rise in the cost of production since decontrol would amount to Rs. 16 per tonne, including freight on cement. As against this, the Industry has received the average price increase of Rs. 13 per tonne from January, 1966 and a total increase of Rs. 1.93 in freight on cement. Moreover, Rs. 8 per tonne (before tax) has to be earmarked and used exclusively for expansion. It was pointed out to Government that the rise in the cost of production under various heads such as dearness allowance linked to the cost of living index, power tariffs and electricity duties, coal prices and transport charges is entirely beyond the control of the Industry. Devaluation and the larger provision for depreciation due to new factories coming into production have also contributed to higher costs. Furthermore, there are higher interest charges on increased borrowings for accelerated expansion, and these substantial borrowings have to be serviced from accruing profits.

Government has so far declined to review cement prices on the plea of holding down the cost of essential commodities. If the Cement Industry is to operate purposefully and be capable of large-scale expansion, the case for an immediate price increase will have to be considered on its merits.

MANAGING AGENCY

It is to be regretted that Government have issued a Notification declaring that as from 2nd April, 1970, all companies in the industries specified, including the cement industry, shall cease to have Managing Agents. The term of office of Cement Agencies Limited is therefore due to end on 1st April, 1970.

It is generally recognised that efficient management is in very short supply to meet the growing needs of our developing economy. By discontinuing the Managing Agency system, a form of proved, efficient management will be needlessly sacrificed. Why should not Managing Agencies which

have proved their value and worth over a period of years be allowed to continue for the benefit of the managed companies?

CEMENT—SUPPLY AND DEMAND

A regionwise assessment of future demands and capacities indicates that the capacities already planned and under way can be expected to take care of the demand for cement in the country upto about 1974. However, capacities are concentrated in certain regions and expansion plans are not such as to rectify the imbalance. To correct this, it is essential that future increases in capacity are properly located.

During the last quarter of 1967, a surplus of cement is making itself felt, mainly in the South and in Saurashtra, and to a lesser extent in Madhya Pradesh and Orissa. Ordinarily such surplus production should have found an outlet in other areas, but it is now being realised that the capacity to absorb cement has shrunk appreciably; and it looks as if the total production of cement is beginning to outstrip the total demand.

In view of this situation your Directors will carefully have to assess the future demand for cement and the Company's resources before the second and third phases of your Company's Five Million Tonnes expansion programme are taken in hand.

COAL AND PACKING MATERIALS

Economies in the procurement of stores including engineering goods which are required in large quantities both for maintenance and expansion are continuously under examination.

Special attention was paid to selective and rationalised procurement of coal on the basis of delivered cost equated with quality. Emphasis was laid on inherent quality and individual characteristics of the coals and their performance in actual use, as distinguished from the quality or specifications borne on their official labels or grades which often do not provide a true index. These measures are yielding economies. The need for further rationalisation of our fuel purchases has now become even greater consequent on the increases in price which the Coal Industry has effected in the wake of its decontrol.

In the matter of packing materials also, steps were taken to rationalise both procurement and provisioning methods.

FINANCE FOR EXPANSION

Out of the external finances of about Rs. 15 crores required for the first phase of our Five Million Tonnes expansion programme, the consortium of four financial institutions had agreed last year to provide a term loan of Rs. 10 crores. Against this, an interim advance of Rs. 5 crores has been received from them. Further advances are being arranged from them pending execution of the Contributory Mortgage Deed.

ISSUE OF EQUITY CAPITAL

The fresh equity capital of nearly Rs. 4.75 crores proposed to be issued to the existing shareholders in the ratio of one new share to every five shares will complete the external finances required for the first phase of the expansion programme. These right shares of Rs. 100 nominal value will be issued at par, Rs. 50 being payable on application about the middle of 1968, and the balance being called up later in one lump sum or in instalments as required. The new shares will rank for dividend from 1968-69 in proportion to the capital paid-up.

This widening of its equity base will strengthen the position of the Company and improve the prospects of its growth in the years ahead.

GEOLOGICAL CONSULTING SERVICE

During the past few years we have built up a very useful geological consulting service for the benefit of new entrepreneurs, mainly in the Cement Industry. The service covers geological surveys, proving of deposits of raw materials and underground water investigations.

ENGINEERING WORKS, SHAHABAD

Our Engineering Works, Shahabad, received orders from other manufacturers for four cement plants, each of 2 lakh tonnes annual capacity. Despite this, production during the year under review was hampered by the lack of workable orders because imported raw materials and components could not be obtained in time due to procedural delays.

In order to increase workable orders to a safe level, efforts are being made to diversify production programmes by undertaking the manufacture of E.O.T. Cranes, and items of paper and pulp machinery. This is yielding encouraging results.

It must be borne in mind that one of the principal reasons for establishing this heavy engineering base at Shahabad was to create facilities so that the A.C.C.'s own large and expanding machinery block could be serviced efficiently. In this respect, the Engineering Works is proving to be of undoubted benefit to the Company.

LABOUR-MANAGEMENT RELATIONS

I am happy to report that labour-management relations generally continued to be satisfactory.

Relations with labour, howsoever good, cannot remain unaffected by extraneous events on the wider political and economic plane such as the current recession and the repercussions of unrest in other industries in adjacent areas. As an instance, industrial relations at our Sindri Works have been seriously influenced by the course of events in Bihar State generally and in the Sindri Fertilizer Factory in particular. The Manager of our Sindri Works and other senior staff were recently subjected to a 'gherao' accompanied by some demands. The 'gherao' is a coercive method of enforcing industrial demands has rightly been the subject of comment and condemnation by various authorities, both in Government and public life. The Vice President, Mr V. V. Giri, himself a reputed trade union leader, has labelled the 'gherao' as "the enemy No. 1 of the working classes and the worst trend in the history of the trade union movement." Mr. Giri went on to say: "Workers should realise that responsibilities go with rights."

In the context of prevailing tensions and unrest throughout the country, it is hoped that good sense will yet prevail and that your Company will come through comparatively unscathed.

Before concluding, I would like to express on your behalf, the management's warm appreciation of the loyalty, hard work and whole-hearted co-operation of the Company's employees at the Works, Collieries, Offices and other establishments throughout our far-flung organisation.

Bombay, 12th December, 1967.

RECORDS AND STATISTICS

Experts Discuss Fiscal and Monetary Policies

TWO IMPORTANT seminars were held here a few days ago. The Federation of Indian Chambers of Commerce and Industry had sponsored a seminar on fiscal and monetary policies. The Institute of Chartered Accountants of India had organised a seminar on taxation and national development. The seminars highlighted the economic difficulties facing the country presently and recommended various measures for adoption in the fiscal and monetary fields so that the economy regains its buoyancy.

CONCLUSIONS OF THE F.I.C.C.I. SEMINAR

The conclusions of this seminar were arrived at by two working groups. One working group dealt with (1) tax structure and its effect on savings and growth, and (2) taxable capacity, tax level and the use of tax resources. The other working group dwelt upon the monetary policy and finance for development.

The conclusions of the first working group are as follows:

The main objective of economic policy should be the achievement of the highest possible economic growth. This development depends upon the savings generated in the economy and the efficiency with which the savings-resources are used. But when there is misdirection of investment or when the tax level has a disincentive effect on the willingness and the capacity to save, the rate of growth is slowed down or may even become negative.

Since accelerated economic development is a function of the most effective investment of saving and foreign aid, the aim of all policy measures should be two-fold: to stimulate the flow of saving and to ensure that adequate savings become available to the high-yielding sectors of the economy.

The criteria of economic policy must necessarily be considered, not in the abstract, but in the context of the prevailing economic situation. In this view of things it is essential to note that our economy has run down. There is a fall in production; the capital market is in a bad way; unemployment is growing. During the past two years, while in every budget new taxes have been levied, neither plan outlays nor defence expenditure has increased commensurately. On the other hand, plan expenditure as a proportion of total expenditure, or as a proportion of the national income, has actually fallen. Therefore, it would not be reasonable to relate recent increases in taxation to development or defence.

The rate of saving in India has been low as in most underdeveloped and poor countries. It has also been, for long, semi-stagnant. Lately, it has even declined. According to a recent estimate, the rate of saving fell from 10.3 per cent in 1965-66 to 8.2 per cent in the following year and is currently placed at 6.4 per cent or lower than the average in the 1950s. There is, thus, great need to reorient our fiscal and monetary policies for reversing this decline in savings.

A major contribution to this task must come from tax reform. If revenue collections are smaller, the after-tax incomes of the people would be correspondingly larger; and the marginal rate of saving of taxpayers being high, the savings from these larger incomes may be very considerable.

India is among the most highly taxed nations in the world.

The marginal tax rates on the upper income slabs are higher than even in welfare states such as Norway, Sweden and the United Kingdom; and are vastly higher than in the USA and West Germany. This has taken a heavy toll of saving, which a country struggling to develop can ill-afford.

In any event the burden of taxation has reached the outer limit and this is reflected in relatively lower tax collection both direct and indirect. It is clear that, by and large, the tax potential of the economy has been fully drawn upon for the time being. For this reason—

i) Government (both central and state) should refrain from imposing additional taxation till the economy recovers; ii) Indeed, government must find ways and means to reduce taxation, particularly in areas where such reduction will stimulate savings, production, exports and investment in new enterprises; iii) Every effort should be made to reduce public expenditure; iv) There must be a pause in the extension of the public sector enterprises; v) Ways and means must be found to ensure that the existing public sector projects are run efficiently, even if this necessitates a radical change in the form of management.

The following is the summary of the conclusions of the FICCI's second working group which discussed monetary policy and finance for development:

There is an intimate relationship between the fiscal and monetary policies and the question of financing development cannot be considered in isolation. The first prerequisite is to ensure that fiscal policy is really production-oriented. Unfortunately, our monetary and fiscal policies, hitherto pursued, are not conducive for promoting such growth. The economy is facing shortage of savings as well as credit for productive purposes. The situation has been aggravated on account of the increase in non-developmental expenditure of government and the policy of raising revenues through additional taxation. The feeling in some circles that taxation is synonymous with savings in a developing country is not wholly correct. Taxation has been largely used for revenue expenditure. As against this, the savings in the hands of the people would more likely be used for productive purposes. The governmental policies also, coupled with the failure of monsoons for two consecutive years, have seriously affected the whole developmental process. The group has the following suggestions towards the objective of making monetary policy play its due role as a catalyst for growth:

I. Revival of Capital Market

i) The stalemate in the capital market has to be resolved to give a dynamic push to the economy. In addition to the fiscal measures for revival of the capital market, bank credit should be made available liberally. To attract investments in shares and securities, restrictions on overdraft facilities against them should be removed; ii) The imbalance between returns on equity investment and other forms of investment has to be immediately corrected. The present position is that, in order to attract investment in equities, the pre-tax profits should be of the order of 25 per cent. Since this is not possible, there should be appropriate tax reliefs so that the comparative yields on investment in shares and securities become attractive; iii) Further, a reduction in the Bank rate is one of the methods to revive the capital market. The existence of a high Bank rate in our closed economy, where the monetised sector is a relatively small segment of the

national economy, does not act as a deterrent to high price level, but at the same time restrains productive investment; iv) In order to encourage investment in the corporate sector, provident fund monies which are now compulsorily required to be kept in government securities should be allowed to be invested in debentures, convertible bonds, preference shares and equities; v) Unit investment trusts in the private sector should be allowed and encouraged on similar terms as the Unit Trust of India.

II. Provision of Finance

vi) The shortage of long-term finance and bank credit has been aggravated because of increase in prices, wages and cost of raw materials. The costs of projects have gone up as well. Commensurately, credit has not increased, although latterly with a view to combating recession, some liberalisation on a selective basis has been brought about, specially for some priority sectors. This, however, does not meet the requirements of the situation. It is imperative to broad-base credit liberalisation for stimulating production all round. As some diversion of funds to agriculture and small-scale industries might take place in line with the new policy, it is necessary for the banking sector as a whole to mobilise additional resources, by tapping resources in the rural areas. The commercial banks should also be assisted to obtain refinance through the Industrial Development Bank of India and the Agricultural Refinance Corporation by relaxing their rules and making the procedures easy and simple; vii) Banks should be provided with adequate safeguards to give them legal protection for recovery of outstanding advances given to the agricultural sector; viii) The Reserve Bank of India should meet the additional and growing requirements of the banking sector for credit; ix) Larger inflow of foreign private capital can play a vital part in supplementing limited domestic resources and has to be encouraged. In this connection, the policies and practices adopted successfully by other developing countries need to be studied.

CHARTERED ACCOUNTANTS' SEMINAR

Some of the major conclusions which have emerged from the three-day discussions at the seminar held by the Institute of Chartered Accountants of India are summarised below:

An appreciation of basic tax policies and the incidence of various tax statutes is rendered difficult by the non-availability of adequate data to determine the incidence of taxation at different levels, the shift of such incidence in the course of economic activity and changes in the contribution which different sections of the population make to the national income. The last comprehensive enquiry into the scheme of taxation in this country was completed in 1954 and since that time tax laws have been radically altered following on the recommendations of Mr Kaldor and also significant changes have taken place in the composition of national income. It is, therefore, all the more necessary that a long term policy can be formulated only as a result of a fresh comprehensive enquiry into all the relevant factors determining such a policy and it is suggested that a tax enquiry commission should again be formulated for this purpose.

While recognising the disparities in income and wealth existing in the country and the necessity for a speedy reduction of the same, it has to be accepted that the main emphasis of fiscal policy in the immediate future should be the generation of economic growth. Both economic welfare and social well-being of the community as a whole can increase only by the most rapid generation of economic wealth and if fiscal policies directed towards a reduction of inequalities in incomes

and wealth hamper this basic objective, then such policies have to be temporarily postponed.

Economic growth is determined not merely by the resources available for investment, but also by the manner in which these resources are utilised. The fullest advantage of resources mobilised through taxation cannot be obtained so long as government expenditure is not strictly curtailed and public investment continues to yield a return which is substantially lower than the return which would have been earned if taxation had not been levied and the savings of the private sector had been allowed to remain with it.

Economic growth is also determined by the spread of knowledge and the desire to economise which result in greater technological advancement and increased efficiency. When resources are restricted, the main emphasis of fiscal policy should therefore be in the encouragement of individual and corporate saving and the greatest possible technological advancement.

Any further contribution which direct taxes can make to the generation of resources is restricted for the following reasons:

(a) The very small section of the population which pays a substantial portion of direct taxes;

(b) The considerable increase in tax collections in the last decade and the very high rates of tax which have already been reached; and

(c) The fact that agricultural income which accounts for over 45 per cent of the total national income makes no contribution to the resources collected by direct taxation.

Agricultural income accounts for an increasingly larger share of the national income. If government is to continue to realise its normal share of this growth in the national income, some part of the increase in the agricultural sector has to be made available to the government either through taxes or through savings. It is not desirable or feasible to tax small agricultural incomes. But it is certainly necessary and possible that agricultural income in excess of a fairly high exemption limit should be taxed and methods should be examined whereby in addition the additional resources generated in the agricultural sector can be made available for the use of the economy through saving or other methods.

Additional resources generated out of tax collections can contribute to economic growth only when they reduce current consumption. In the present context, it is likely that additional tax revenues would reduce savings particularly in the corporate sector and possibly lead to inflation as the tax burden is passed on to the consumer in the shape of increased prices or is recouped by the tax payers through the medium of increased wages. As such it will retard economic growth rather than accelerate it.

The present high rates of taxation act as a strong deterrent to the efficient development of the economy for the following reasons:—

(a) They destroy the desire for greater effort and the incentive for the risking of capital, entrepreneurial skill and technological know-how in the expectation of high gains.

(b) They make inefficiency less expensive since the major share of the expenses are in fact borne by the state.

(c) They make evasion more attractive and widespread.

(d) They curtail the resources which are left with the private sector for its development and rehabilitation.

(e) They encourage increased reliance on investment out of borrowed funds rather than in the form of share capital

and thereby weaken the structure of industry and its ability to withstand temporary periods of recession. It is, therefore, necessary that tax rates be reduced to levels at which initiative necessary for the development of the economy. In which are necessary for the development of the economy. The these areas, a growth has to be generated and sustained. The existing tax incentives like the tax holiday and the development rebate which have already contributed to the present economic growth must be continued and, if possible, even made more effective by a greater degree of sophistication, particularly in the faster development of underdeveloped geographic regions of the country.

Economic growth can also be generated by a total abolition of the Companies Profits Surtax Act, which acts as a direct brake on efficiency and enterprise and by an extension of the benefits of tax credits to individuals and partnership firms.

It is by no means certain that restrictions on dividend distribution effectively contribute to economic growth. On the one hand, they do result in the retention of a larger portion of the profits with the corporate sector and therefore provide funds for investment. On the other hand they result in making corporate investment unattractive for the average shareholder and divert into other channels moneys which would normally have been invested in corporate enterprises. They also result in a re-investment of funds in the same units and destroy the mobility of capital between existing units and new units which may be more in the national interest and which would be available if tax disadvantages were not attached to a withdrawal of funds from one company in the form of dividends and a re-investment of the same in other companies in desired directions.

In the interest of a better collection of tax revenues and a reduction of tax evasion, the company form of organisation should be encouraged as opposed to a sole trader or a partnership firm. There is therefore no justification for higher rate of tax on companies in which the public are not substantially interested and in fact such companies with small incomes should be taxed at concessional rates to induce a greater conversion of sole proprietorships and partnerships into limited companies.

There is also no longer any justification for requiring a compulsory distribution of profits by non-manufacturing companies in which the public are not substantially interested, in view of the other provisions of law which prevent the withdrawal of dividends in any disguise. These requirements of the law should therefore be withdrawn at least in the case of companies which are public companies under the Companies Act, but which are considered for purposes of income-tax law as companies in which the public are not substantially interested.

Certainty of tax liability is a vital condition for economic growth. Therefore, apart from the fact that tax laws should be relatively stable over a period of time, it is also necessary that there must be the least possible divergence between real profits and taxable profits. The following suggestions are made in this context:—

(a) It must be accepted as a general principle that expenditure incurred wholly and necessary for the purposes of the business (both before commencement of business and after) must either be allowed as a revenue expenditure qualifying for relief against present or future income or as a capital expenditure entitled to depreciation of relief over a period of years.

(b) The assessee must be free to choose his method of

providing for depreciation, namely, straightline or written-down value in the same manner as he is given the choice for determining the mode of valuation of stocks, and depreciation allowance for tax purposes must be given to the assessee according to the method selected by him. At the same time, to ensure that this allowance is retained in the business, the allowance for depreciation must be claimed in the year in which it accrues and must be restricted to the amount actually written down in the books of accounts in the same manner as is presently done in the writing off of book debts.

(c) It is necessary that the depreciation schedule be rationalised to re-classify the assets under a few broad heads and to specify rates there-against. In this process, due recognition must be given to the fact that tax laws do not take into account the increased cost of rehabilitation and therefore funds for rehabilitation could be provided only through accelerated depreciation.

(d) To encourage new investment, there must also be a provision in the tax laws to obtain an advance ruling from the government on important matters of interpretation of tax laws which may influence the setting up of a new project.

It is illogical to link up dividend distribution to paid-up capital and to levy additional taxation for declarations in excess of 10 per cent therefrom. It is suggested that this percentage should be applied on the capital employed which for this purpose as also for the purpose of Companies Profits Surtax must include any amount set aside out of profits (including a provision or liability) which has not been allowed as a deductible expense in the computation of income-tax.

Tax laws have to take into account the close identity which exists between a holding company and its wholly owned subsidiary. Following suggestions are made in this behalf:—

(a) On merger of two companies, the benefit of carry-forward of losses and unabsorbed depreciation relating to periods after the subsidiary became a wholly owned subsidiary should not be taxed.

(b) Subvention payments between the holding company and the subsidiary up to the extent of taxable loss should be given tax reliefs.

(c) Transfers of assets as between these companies should not result in the withdrawal of development rebate.

(d) Dividends received by the holding company should be wholly exempt from tax.

In view of the fact that unearned income attracts surcharge only where the total income exceeds Rs 30,000, it would result in considerable simplification of tax laws if the surcharge on unearned income is removed and any consequential loss of revenue is made good by a suitable adjustment of the wealth tax rates.

In the interest of a reduction of the cost of collection of taxation and also to give due regard to the fall in the price levels, the exemption limit for direct taxes should be increased to Rs 7,500.

With the same rates of taxation much greater revenues can be collected if the administrative machinery for the purposes of collection was more efficient. In this context the frequent disclosure schemes, though well meant, really result in an encouragement for future evasion of taxation and as such put the honest taxpayer to a disadvantage. It is necessary that evasion should be dealt with much more drastically

than at present and the strongest possible deterrent should be provided in this connection.

There is considerable scope for simplification and rationalisation of the tax laws and such a cause would lead to a reduction of administrative expenditure and a greater degree of certainty in the determination of tax liability. The taxation committee of the Institute should initiate steps in this connection in the light of the recommendations of Mr Boothalingam's one-man commission and of the working group of the Administrative Reforms Commission headed by Mr Mahavir Tyagi.

The suggestions made above should not result in any substantial loss of revenue. In the long run, revenues would

Report of the Export Publicity Advisory Committee

THE STANDING Export Publicity Advisory Committee was set up in October, 1966, to provide guidance for the effective implementation of the programmes in regard to: (i) coverage and presentation of material; (ii) media of publicity; and (iii) toning and improving the standards. The committee set up five working groups for conducting intensive study of the problems in relation to individual publicity media and more effective utilisation of the co-ordinated effort:

- (i) Working group on radio and television.
- (ii) Working group on publications, press and advertisement.
- (iii) Working group on films.
- (iv) Working group on co-ordination between different government departments.
- (v) Working group on programmes of export organisation.

Reports of the four groups, other than the group on "co-ordination between different government departments", were received. The recommendations made in the reports of the working groups were examined in detail. The conclusions and recommendations arising from the deliberations of the committee are embodied in this interim report which is submitted to the Ministry of Commerce for necessary action.

Well-Known Deficiencies

The deficiencies in the existing export publicity effort are well known. The effort organised at present is feeble, halting and unco-ordinated. There is no definite delineation on the objectives, and the funds provided for the publicity are meagre. The expertise utilised on the media and methods is inadequate. The various publications, including journals, pamphlets, folders, etc., brought out by the Ministry of Commerce, the export promotion councils and commodity boards have shown distinct improvement during the past few years, but the presentation of material in them lacks effectiveness and purposiveness. Press advertising abroad is very little. The media of documentary films and radio are meagrely utilised. Dissemination of commercial information is very limited and not commensurate with the requirements. On these various accounts the impact of India's publicity effort in the overseas markets is negligible. The image of India still continues to be as a producer of primary products and handicrafts. The progress made in industrialisation and modernisation and the ability of the country to export a range of durable and consumer goods of quality is not adequately known in the overseas markets. These deficiencies necessitate the formulation of well-conceived and well-designed publicity programmes and

in fact be enhanced since with the generation of economic growth, there would be a growth in the national income and corresponding increase in tax collections. But even in the short period, there should be no strain on tax revenues which cannot be compensated by more efficient administration of tax laws and a greater degree of discipline in governmental expenditure and public investment. Economic growth cannot be generated if the marginal rates of taxation continue at the present high level and if a rationalisation of these rates results in any temporary loss of revenue, this should be made good by indirect taxation whose incidence falls on the very persons to whom the relief in the marginal rates has been given. The present ostentatious expenditure on luxuries by a class of the population is largely due to the utilisation of the moneys which have not been accounted for. Indirect taxation would thereby help to recoup a part of this unaccounted money.

their effective implementation. The necessity of support of publicity to the export effort of the country does not need any emphasis.

The committee considered these deficiencies of India's export publicity and based its recommendations on detailed studies in relation to the utilisation of various media and for generating effective and practical programmes. As stated earlier, there are two aspects of export publicity, namely, internal publicity for rousing export consciousness, and the external publicity for projecting the image of India and its products. The objective of internal publicity is to create a proper climate to provide stimulants for export effort as well as to enlarge participation and generate enthusiasms in relation to the export effort. The objectives of external publicity are to project the image of modernising and industrialising India and, against this background, to project the specific commodities and products exportable from India. Detailed suggestions in regard to these requirements of internal publicity and external publicity are given in the following paragraphs.

Internal Publicity

The objectives of internal publicity campaign for promotion of exports should be: (a) to create strong public interest in the export drive; (b) to disseminate general information on the facilities provided for export and the procedures and institutional arrangements through which these facilities are available; (c) to provide to concerned interests technical information on market conditions abroad such as import regulations abroad, marketing channels, trade agreements, demand patterns, consumer preferences, nature of competition, etc., and to help create a proper business-like attitude towards export at all levels of management in industrial and trade enterprises; and (d) to provide guidance about publicity media and public relations agencies in various markets and to arrange facilities for their utilisation.

For achieving these objectives following measures are suggested: An intensive publicity campaign should be organised for a period of three months. It should be launched by the Prime Minister to give it necessary initial momentum and to ensure proper recognition of its importance at all levels. This should be synchronised by launching the export drive in all states by the chief ministers. All industrial undertakings, whether small, medium or large scale, should be addressed individually as a part of the campaign and apprised of the opportunities and facilities available for exports. All trade unions should also be closely associated with the campaign in order to educate the workers about the role they have to play in the country's export effort.

In mounting the campaign, maximum use should be made

of all available publicity media. All newspapers and journals in the country should extend fullest co-operation in creating public interest in export promotion. The radio and television should formulate special programmes for the purpose. A special documentary film on export should be produced and it should be shown in all cinema houses throughout the country. With the assistance of the Indian Society of Advertisers and other similar bodies, hoardings should be designed and put up at important places. Exhibitions should be arranged at various important centres for dissemination of information of export markets, new opportunities for export and the facilities available for export as well as export promotion. To attract active interest of the industry and trade, seminars on various aspects of export promotion should be organised during this period. The work relating to the campaign should be organised by the Directorate of Commercial Publicity under the guidance of an advisory board. Details in regard to this campaign should be organised by a small group of technical experts to be constituted by the Directorate of Commercial Publicity.

An export policy declaration should be formulated by the Government of India and proclaimed through Parliament. The declaration will help to bring to focus, in the public mind, as well as in all the government ministries and departments, the importance of exports and the necessity of their full participation in the export drive.

Dissemination of Information

It is of the fundamental importance that facilities should be created for the collection, analysis and dissemination of information relating to various aspects of exports. For this purpose, an export information service should be created simultaneously with the utilisation of certain existing centres for the dissemination of information. The export information service and the disseminating centres should be equipped with adequate reference material and constantly fed with information. Publicity should be given to the facilities available for export promotion through the journals of the Ministry of Commerce, export promotion councils and commodity boards. The committee was informed that a proposal for setting up an export information service was under the consideration of the Ministry of Commerce. It was desired by the committee that expeditious decision should be taken on this proposal.

A thorough review should be made of the journals and other periodicals issued by the Ministry of Commerce, export promotion councils, commodity boards, etc., for internal dissemination of information with a view to making them more purposeful and serviceable. The objective of the journals, which are meant for internal publicity, should be to project information of practical use to the exporters and the effort of these journals should be co-ordinated in order to avoid overlapping of information published in them.

The pattern laid down for the periodical reports of India's commercial representatives abroad should be reviewed with a view to improving the coverage. Special emphasis should be laid on the quality of reporting done by the commercial representatives. Increasingly, greater emphasis should be laid on the provision of specific market information relating to the commodities and products of interest to the Indian manufacturers and exporters.

Lists of dependable marketing research associations abroad for various groups of products should be compiled and necessary facilities created for the exporters and manufacturers as well as the export organisations to make use of their services. Private advertising and marketing research agencies in India, which have business ties with marketing associations abroad, could also render useful assistance in conducting specialised studies.

The Directorate of Commercial Publicity should compile

detailed information about the publicity media in various markets, i.e., lists of commercial and technical journals and directories, their advertisement tariffs, rates of advertisements through radio and television, lists of public relations organisations, marketing agencies, etc., to provide guidance to the prospective Indian advertisers in planning their publicity effort abroad.

The Directorate of Commercial Publicity should also compile a list of competent translators in various foreign languages, preferably region-wise, and also standardise the rates of translation. This information should be disseminated to the export promotion councils, commodity boards, etc.

Documentary Films

The medium of documentary films should be more effectively utilised for stimulating export consciousness within the country. The films for this purpose should form a part of the overall campaign and should not be used in isolation. For exhibition within the country, the films should be of two types; (a) films explaining the need for exports, how export is vital to the country's economy, etc., and (b) special films on "How to Export?", and on other allied subjects like quality control, packaging for export, etc., intended for exporters and manufacturers. The films of category (a) would cover subjects such as "Why Export?", and "Export for Progress". The films in category (b) will cover subjects such as "What to Export?", "How to Export?", "Quality for Export", "Packaging for Export", etc. It is obviously not possible for the Films Division to undertake the production of all these films. Whereas the Films Division could be entrusted with the production of one or two films intended for general audiences, the films for specialised audiences of potential exporters should be got produced through outside producers and through the intermediary of export promotion councils and commodity boards.

For effective utilisation of the medium of radio for various requirements relating to export publicity, it would be necessary to set up a separate cell in All India Radio for publicity, both general as well as brand publicity. The Ministry of Commerce, in consultation with the Ministry of Information and Broadcasting, should make allocation of budget provision and make the funds available to All India Radio for setting up the required cell. The medium of radio should also be utilised for coverage of important events to include items like growth of particular industries, quality control, procedures adopted in the industries and information relating to the consumer and brand goods. There should be a forum on export promotion established through All India Radio and commercial bulletin should be instituted for disseminating information on the various aspects relating to the export effort including the visits of delegations abroad, and visits of delegations coming to India.

The committee noted that on various occasions the desirability of instituting recognition and awards for outstanding export performance had been considered. The utilisation of the instrument of recognition and awards is of obvious importance for stimulating a climate for exports. The committee expressed the desire that expeditious decision in this behalf should be taken by the government.

External Publicity

In the face of aggressive salesmanship from competing suppliers, supported by intensive advertising, the present publicity for Indian products, which lacks planning and expert handling, apart from being handicapped by inadequacies of funds and want of sustained efforts, fails to make any impact. Even the available resources are not put to the best use, as the publicity projections are neither market-oriented nor built on proper media planning. The export promotion councils publish journals in English language for export publicity and the copies are sent out to the Indian embassies for distribution. Some of these publications are undoubtedly well-produced, but

the whole effort remains purposeless and unfruitful judged from the point of view of circulation and readership of these journals. Very little is being done to develop public relations even in important markets. Keeping in view the present circumstances and the requirements of effective publicity abroad, following specific recommendations have been made: Apart from the normal publicity and advertising which is being done by the government as well as the export promotion councils and the industry and trade, a programme of intensive publicity in selected markets should be developed devoted to specific products and oriented to market conditions. Where possible, these campaigns should be synchronised with India's participation in trade fairs and exhibitions abroad.

Special facilities should be provided to the industry and trade for advertising through media within the overall campaign plan. For this purpose, release of foreign exchange should be made on the recommendation of a co-ordinating authority entrusted with the responsibility of mounting the campaign. The publicity materials should be produced in the language of the country where the campaign is to be organised and these should be mailed to the concerned buying interests of which the detailed lists and directories should be provided by the Indian embassies in that country. Media planning should be done on the advice of the Indian embassies and publicity and public relations consultants. Some of the advertising agencies in India are affiliated to international organisations and can render necessary services through their associates. Where such contacts do not exist, the services of competent consultants abroad should be utilised.

Creating an Image

For making contact with potential buyers, creation of proper image of the quality standards, range of products and production capacity, and publicity-cum-sales promotion through stores, etc., the services of specialised public relations organisations should be utilised wherever possible. This would enable advertising to be done economically and effectively. The Directorate of Commercial Publicity, with the help of Indian embassies, should develop such public relations arrangements in various countries.

An evaluation of utility of the journals produced by various export promotion councils for external publicity should be made. By and large these journals should be substituted by a series of publicity pamphlets, catalogues, and "buyers' guides" produced in a few selected foreign languages and projecting technical information on various manufactures and commodities. Technical publications of this nature should alone be produced by the export promotion councils and commodity boards, while publications for general publicity should be left to the care of the Directorate of Commercial Publicity. Distribution of technical publications should be made on direct mail basis, and for this purpose detailed information should be collected by the export organisations so that despatch of publicity materials to concerned interests is speedily effected.

Sporadic advertising in general newspapers is not of much avail. Considering the high cost of such advertising, it should be avoided as far as possible. Instead, advertisements should be given in technical periodicals and economic papers. Properly drafted handouts, supported with good photographs, should be sent regularly to general newspapers for free publicity. Press relations should be cultivated more intensively by the Indian embassies for developing free publicity possibilities. The basic objective of press advertising should be to establish the quality image of Indian products and the availability of different types and ranges of commodities of quality. As far as possible, advertising and publicity should be oriented to the special market conditions in different areas.

In relation to the production of documentary films for

publicity projection in overseas countries it is necessary that the nature and scope of the campaign should be decided according to the commodity and the target country. Four types of films will need to be kept in view: (a) films for specialised audiences such as importers and traders abroad. These should depict types and characteristics of commodities, quality control packaging, etc., without giving much technical details; (b) films for general audiences abroad which should give information on commodities and products produced in India. A documentary projecting modernising and industrialising India should also be produced for wide exhibition abroad; (c) Advertisement shorts; (d) Special documentaries on art and culture for adaptation on television with indirect reference to the sponsors of films on commodities exported by them. Films for publicity abroad should be of the highest standard, and should be produced in colour in 35 mm, later reduced to 16 mm. The present arrangements for exploitation of documentary films are inadequate. Where necessary, staff in the information service of India posts should be augmented to enable them to make full use of publicity material including documentary films. The staff should be well informed about the commodities and should be in a position to answer queries from potential importers. In this connection the recommendations of the Films Advisory Committee of Members of Parliament, which was set up some time ago, need to be kept in view.

These recommendations are: (i) Each film should be tailor-made to suit the specific requirements of the audience for whom it is intended. (ii) Each film as far as possible should be based on one single idea which would be properly developed. Any attempt to put too many ideas in one film reduces the usefulness of the film and dilutes its impact. (iii) Some sequences in a film could be profitably shot in foreign countries to show how Indian products are utilised in



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foreign homes and how they are available in foreign countries. (iv) Too much of commentary should be avoided. (v) Techniques of high pressure salesmanship should be avoided. (vi) Quality of products should not be praised in hyperbolic terms. (vii) For export promotion the films should be indirect, unobtrusive and modest in claims for our products. (viii) Commentary of documentaries, as far as possible, should be got vetted and recorded in countries in which they are to be exhibited.

The manner of utilisation of documentaries and advertisement shorts needs to be looked into carefully so that the material produced in India is utilised to the maximum advantage. It would also be desirable that two or three officers connected with the production of documentary films and publicity should be sent abroad for training.

In regard to the utilisation of radio for purposes of export publicity it would be desirable that there should be increasing frequency of broadcasts through external services dealing with trade of India with different countries and regions. There should be no hesitation to include the names of important brands of products in the external services programmes, if these can help to attain the objective of expansion of our trade. Information on success stories and new achievements in production and exports should be highlighted in the external broadcasts. Arrangements should be made for interviews with the managements of successful industrial concerns which have exported overseas. There should be more talks in the external broadcasts about the range of India's products and their quality. It is hoped that commercial broadcasting will be extended in the external services. It is desirable that the advertisement rates for commercial broadcasts in the external services should be lower than the rates in internal services. Effort should also be particularly made to beam commercial broadcasts to the countries where people of Indian origin are settled.

Funds for Export publicity

There will obviously be need of sufficient availability of funds for the purposes of export publicity. These funds will have to come partly from the government and partly from the industries. The committee suggests that following criteria should be adopted for allocating the responsibility in regard to the provision of funds for the requirements of export publicity.

Where the expenditure has to be incurred for stimulating export consciousness within the country through the utilisation of various media indicated above, or where the expenditure has to be incurred for projecting abroad the image of industrialising and modernising India, the responsibility for incurring the expenditure should be solely of the Government of India and 100 per cent allocation should be made available to the concerned organisation from the Marketing Development Fund.

Where the expenditure has to be incurred in relation to the export publicity campaigns relating to groups of commodities and products, the expenditure should be shared between the government and concerned industry in accordance with the principles incorporated in the code of grants-in-aid.

Where the expenditure relates to brand publicity or the requirements of products of an individual enterprise, the existing provisions in the code of grants-in-aid should be utilisable for giving assistance from the Marketing Development Fund.

Expenditure on publicity should be considered as an investment which will yield returns. The provision of insufficient funds will thwart the effort. The Government of India should be prepared to earmark one per cent of the annual exports for

utilisation in connection with the export publicity, including internal publicity as well as external publicity. At present the country's expenditure on export publicity, including advertisements in India and abroad, is infinitesimal. In this connection, it would be observed that Japan, UK and USA spend two to five per cent of the annual exports on publicity and advertisement.

Organisation for Export Publicity

For organising these various activities in the fields of internal publicity and external publicity, it is necessary that there should be an organisation which can build up the capacity for developing integrated publicity programmes and co-ordinating the activities of the specialised organisations connected with the utilisation of different media. This organisation should maintain constant contacts with the export promotion councils and commodity boards. For effective functioning it is desirable that this organisation should be autonomous in status and should have greater freedom from rigid financial and other accounting controls. It should keep in close touch with All India Radio, Films Division, Publications Division, External Publicity Division, Information services of India posts and trade posts abroad, and various export organisations in the country. It is not necessary to create an altogether new organisation to handle the publicity programme for this purpose. The choice is, therefore, necessarily related to the existing organisations including the Directorate of Commercial Publicity in the Ministry of Commerce, the Indian Council of Trade Fairs & Exhibitions, the Federation of Indian Export Organisations and the Indian Institute of Foreign Trade. The Directorate of Commercial Publicity, which is a part of the Ministry of Commerce, is subject to the various regulations and control of the government department and, therefore, cannot be expected to function with the same initiative and drive as an autonomous organisation. The Federation of Indian Export Organisations is located at Delhi. If it is charged with the responsibility of programming, budgeting, channelling of funds and implementation through export agencies, it will have to set up a publicity branch in Bombay which will necessarily have to be the hub of activities relating to export publicity. This kind of division of functions of the FIEO may not lead to effective building up of the export publicity programmes.

The Indian Institute of Foreign Trade is very much concerned with research and training programmes and, therefore, it is not the appropriate body for taking up export publicity programmes. The only alternative is the utilisation of the Indian Council of Trade Fairs & Exhibitions which is already handling a branch of publicity, namely, visual publicity. It has acquired sufficient expertise and knowledge and can be an effective instrument for the purpose of export publicity. The council should be assisted by a panel of experts for imparting specialised knowledge in regard to the campaigns, visual and planning aspects, etc. The panel of experts would help the council to spell out the programmes in detail and prepare financial implications of the programmes. The council should have two whole-time advisers, one designated as campaign adviser and the other visual & planning adviser. The council will be the executive body which will be responsible for getting the programmes implemented and which will exercise supervision and co-ordination over the bodies implementing the programmes. The name of the council will have to be suitably changed to enable it to handle the programmes of publicity as well as exhibitions. It is suggested that the council may be redesignated as "Indian Council of Export Publicity & Exhibitions (ICEPE)". The council will prepare budgets, formulate programmes, secure allocations from the government and co-ordinate the programmes through export organisations as well as the export bodies. Suitable criteria will need to be determined in the code of grants-in-aid for the provision of adequate funds to the council for its activities.

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